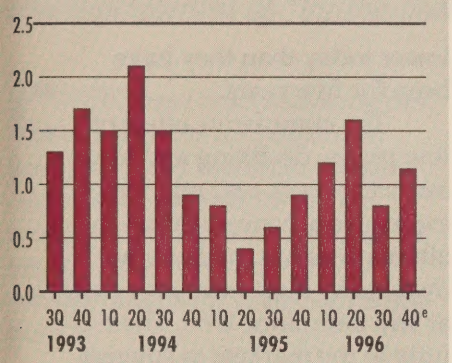
CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE

FIRST QUARTER 1997

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC. CMHC – MAC 1997

Market Share of Residential Mortgage Credit*

	1Q96	2Q96	3Q96	4Q96[e]
Banks	56.4%	56.8%	57.1%	57.5
Trusts	12.7%	12.4%	12.1%	12.0%
Caisses & Co-op	14.1%	14.1%	14.2%	14.1%
Life	6.6%	6.5%	6.5%	6.4%
Pension Funds	2.3%	2.2%	2.2%	2.2%
Fin. & Loan	8.1%	8.0%	7.9%	7.8%

e: estimate
*Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC. CMHC – MAC 1997

INSIDE

MORTGAGE LENDING

LOW RATES DRIVE MORTGAGE LENDING UP

by Ali Manouchehri, Senior Economist – Capital Markets

As expected, lower mortgage rates helped to bring more buyers into housing markets in the closing quarter of 1996 and led to a 4.2 per cent rise in residential mortgage lending in 1996.

Residential mortgage lending rose at a faster pace last quarter as low mortgage rates encouraged more households to venture into the housing market and purchase homes. The outstanding value of residential mortgage credit grew by 1.1 per cent to reach $355 billion during the fourth quarter of 1996. Last quarter's strong performance lifted the annual growth rate to 4.2 per cent in 1996, compared with 3.6 per cent in 1995.

Housing construction increased further in the fourth quarter providing room for the expansion of mortgage lending activity. Seasonally adjusted housing starts rose by 0.4 per cent in the closing quarter of 1996 and the new house price index rose marginally as well, for the first time in a year.

Resale market also witnessed a healthy 26.3 per cent growth last quarter leading to a record sale of 321,200 units in 1996 according to MLS.[1] Average MLS sale prices increased by 0.4 per cent. The higher pace of resale activity helped raise the rate of mortgage credit growth from the previous quarter, as did gradually improving economic conditions and job prospects.

Lower interest rates in the second half of 1996 and into 1997 are expected to further stimulate the economy this year and improve the environment for mortgage lending. Reduced mortgage rates will mean lower home ownership costs and increased home sales, prices, and housing starts in the months ahead.

Market shares of outstanding mortgage credit by lender type in the fourth quarter continued to tilt in favour of chartered banks, with 57.0 per cent for banks, 12.0 per cent for trust companies, 14.1 per cent for credit unions, 6.4 per cent for life insurance companies, 2.2 per cent for pension funds, and 7.8 per cent for finance and loan companies. ■

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

HOUSING ATTRACTIVENESS AT 28 YEAR HIGH: Fueling the housing recovery of 1997

by Peter Norman, Economist, Bank of Montreal

Low interest rates, stable new home prices, and rising residential rents have made home ownership more attractive now than at any time in the past 28 years. The last time that the ratio between average rental costs (for a 3-bedroom apartment) and the carrying costs on an average home favoured the home-buying decision as much as today was in December 1968.

Rapid construction of rental units during the 1960s vastly improved the availability and accessibility of the rental accommodations. Between 1961 and 1973, the ratio of owned to rented dwellings moved from 3.0 to 2.6 in Canada. The supply increase in the rental market depressed rents relative to ownership costs, thus beginning three decades when many potential buyers found renting a more attractive option.

There has been an increasing emphasis on ownership construction since 1982. This is partly because rental housing investment became less attractive in markets where rent controls were imposed, and partly because the demand for ownership housing was driven up by the growth in baby-boom-led families. The impact on prices has been significant: Since 1982 average rents have doubled, increasing faster than inflation.

On the other hand, home prices inflated rapidly in the late 1980s, corrected early in this decade, and have increased overall by 34 per cent, an amount less than general inflation.

Moreover, this long-term trend has recently been reinforced by short-term price changes. Since January 1995, average rents have increased by 2.3 per cent, whereas average home prices have declined by 3.4 per cent.

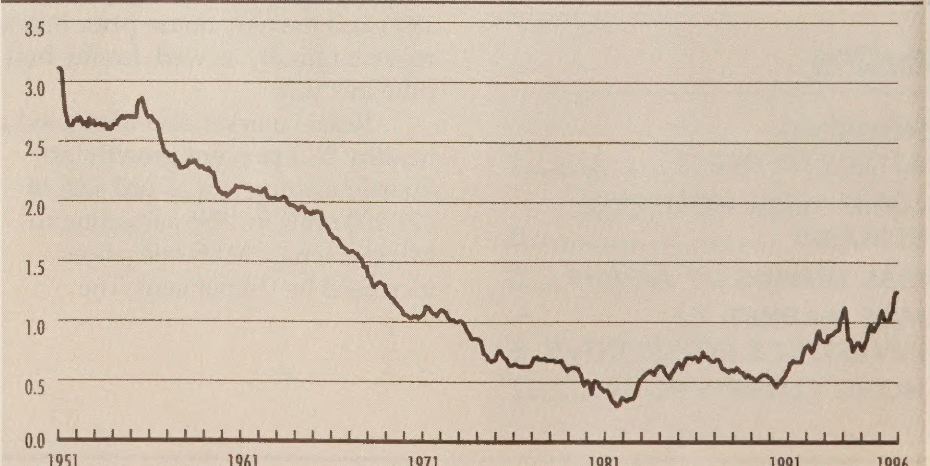
From the perspective of the potential first-time buyer, the change in relative prices suggests that the time has never been better to buy. Moreover, because these favourable price trends are based on long-term structural shifts in housing preferences and the availability of dwelling units by type, the trend toward more affordable housing will likely persist.

Of course, over and above long-term structural price trends, which favour the decision to buy over rent, extremely low financing costs have driven the overall costs of home ownership to historic lows. With several interest rate cuts last year, the rates for conventional mortgages are, in nominal terms, now among the lowest in thirty years. Even in real terms (taking inflation into account), rates are lower today than they have been for five years.

The cumulative effect of low prices, declining and low servicing costs, and relatively expensive accommodation alternatives has made home ownership more attractive than at any time since 1968. There is little in the markets to suggest that some of the fundamentals behind this favorable relationship will change in the near future. Interest rates are expected to remain near current low levels well into 1997, and home prices in most markets will show some very modest upward movement but not dramatically change. On the

continued on page 10

Attractiveness Index



Sources: Bank of Montreal

CMHC – MAC 1997

LONG-TERM HOUSING DEMAND: IMPLICATIONS FOR LENDERS

by Gary J. MacDonald, Senior Economist, Market Analysis Centre

What can mortgage lenders expect over the next 20 years? Older borrowers with more assets and income, and therefore less risky loans; new client groups, such as immigrants and non-family households; and increased demand for asset management to help convert illiquid assets into cash flow. Clients of the future will be more demanding of service and products to meet their needs, and less tolerant of "by-the-book" service.

CMHC has constructed a series of scenarios for household formation, and therefore housing demand, to the year 2016.[1] The scenarios illustrate several general trends, as well as some specific considerations for financial institutions.

Major Trends

Four major trends will affect the housing industry from 1997 to 2016:

- Growth rates for numbers of households will be highest for those with heads aged 45 and over.
- The highest rates of growth in the number of households will be in Ontario, Alberta and British Columbia.
- Non-family households (individuals, or households composed of unrelated persons) will increase as a proportion of all households. Such households will be more likely to want to own homes than in the past.
- Immigrants will form a higher proportion of new households.

While the strength of these trends will vary, their overall implications are similar in all scenarios constructed.

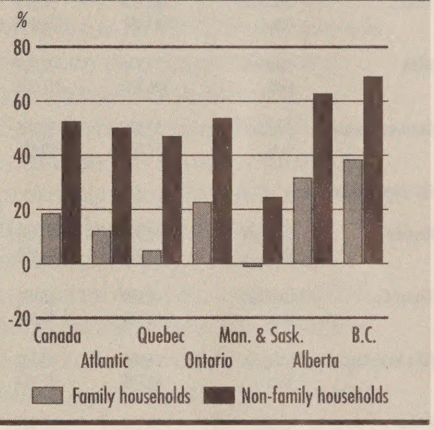
[1]The Long-Term Housing Outlook: Household Growth in Canada and the Provinces, 1991-2016. *Canada Mortgage and Housing Corporation, 1997. Any numbers used in this article are based on the Western migration and Medium headship scenario of the report.*

Older Households

Households with heads aged 45 and over, typically buyers with higher incomes and net worth, will comprise a larger share of home buyers. This should improve the average risk characteristics of mortgage lending, as will the fact that there will be relatively fewer first-time buyers. This increase in the number of households with a larger asset base is also expected to increase the need for asset management services, rather than credit. In many cases, older households will need improved or even customized reverse mortgage, annuity and life insurance products to help them transform assets, such as a home, into cash flow.

Growth in some areas will require the expansion of capacity to meet the demand for mortgages and financing for residential construction. However, it should be noted that while the total number of households in Canada will increase about 28 per cent by 2016 — setting a benchmark for the expected increase in financing volumes — the fastest-growing groups will be older households. Because they generally have more income and assets than younger buyers, the rate of growth in financing required is likely to be less than growth in the number of households.

Household Growth in Canada: 1996 to 2016



Source: The Long-Term Housing Outlook, CMHC. CMHC–MAC 1997

Provincial Growth Rates

The total number of households in Canada is expected to increase by about 28.2 per cent from 1996 to 2016. Family households will grow by 18.4 per cent, while non-family households will grow by 52.3 per cent. Growth in family households will be lowest in Quebec, Manitoba and Saskatchewan, with the last expected to experience a small decline, while both Alberta and B.C. will experience growth of over 30 per cent. Manitoba and Saskatchewan will be the only areas to experience less than 45 per cent growth in non-family households, with growth of just under 25 per cent. Alberta and B.C. will also lead growth in

continued on page 9

INDICATORS OF MORTGAGE LENDING ACTIVITY

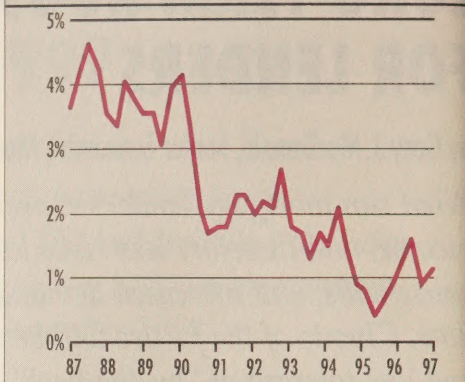
Mortgage Credit Outstanding[1] (in millions of dollars)

	1995	1996[e]	95Q4	96Q1	96Q2	96Q3	96Q4[e]
TOTAL	335,749	349,842	339,490	343,411	348,902	351,614	355,439
% change	3.6	4.2	0.9	1.2	1.6	0.8	1.1
Banks	185,663	199,245	189,489	193,550	198,206	200,713	204,512
Trust Co.	45,672	42,973	44,670	43,515	43,144	42,622	42,609
Caisses & CO-OP	47,176	49,354	47,825	48,260	49,037	49,911	50,208
Life Ins. Co.	22,113	22,681	22,148	22,561	22,733	22,727	22,705
Pension Funds	8,045	7,775	7,903	7,778	7,774	7,808	7,740
Fin. & Loan	27,080	27,814	27,454	27,747	28,010	27,834	27,664

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Quarterly Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

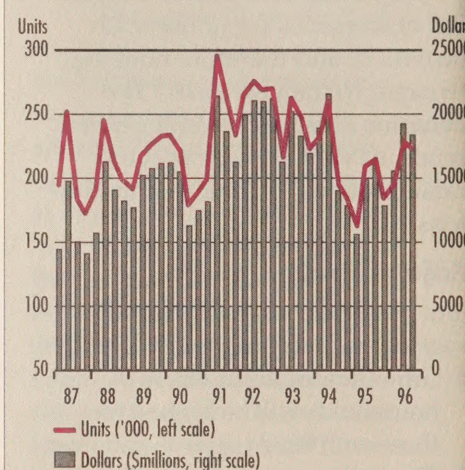
NHA and Conventional Loans Approved[1]

		1994	1995	95Q3	95Q4	96Q1	96Q2	96Q3
TOTAL	$ millions	65,116	54,575	16,131	12,837	15,553	19,237	18,365
	Units	764,042	676,640	195,788	158,780	188,853	230,004	219,422
NHA	$ millions	25,944	22,219	6,334	4,938	6,928	7,740	6,822
	Units	306,238	277,205	77,798	62,522	83,925	94,534	84,034
Conventional	$ millions	39,172	32,356	9,797	7,899	8,625	11,497	11,543
	Units	457,804	399,435	117,990	96,258	104,928	135,470	135,388
By Type of Lender								
Banks	$ millions	40,352	34,902	10,412	8,440	10,516	12,870	12,483
	Units	460,775	405,220	118,062	100,138	123,072	145,158	142,413
Trust Co.	$ millions	10,593	6,992	1,961	1,486	1,750	2,208	2,047
	Units	113,370	80,706	23,158	16,919	20,662	23,997	23,876
Life Ins. Co.	$ millions	4,061	3,742	975	706	822	992	989
	Units	62,708	71,203	19,096	13,326	12,375	17,530	16,342
Others	$ millions	10,110	8,939	2,783	2,205	2,465	3,167	2,846
	Units	127,189	119,511	35,472	28,397	32,744	43,319	36,791

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1997*

NHA and Conventional Approvals



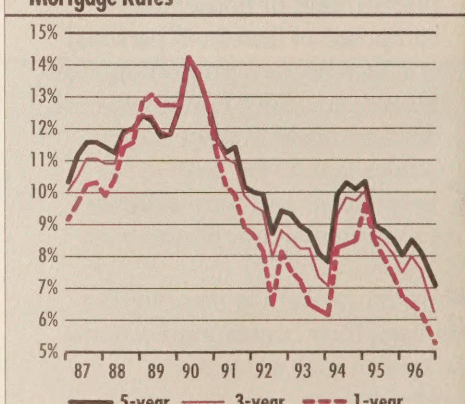
Source: CMHC. *CMHC – MAC 1997*

Mortgage Rates (%) (Average of period)

	1995	1996	95Q4	96Q1	96Q2	96Q3	96Q4
1-Year Mortgage Rate	8.38	6.19	7.42	6.75	6.50	6.25	5.25
3-Year Mortgage Rate	8.81	7.33	8.08	7.50	8.00	7.59	6.25
5-Year Mortgage Rate	9.16	7.92	8.53	8.03	8.50	8.13	7.03

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1997*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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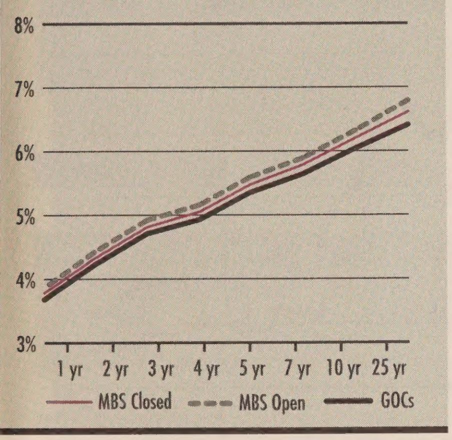
NHA MORTGAGE-BACKED SECURITIES

1996 NHA MBS TRENDS UP AGAIN

by Ali Manouchehri, Senior Economist – Capital Markets

The MBS market saw some improvement in 1996, with 154 new pools issued totaling $1.7 billion, up 11 per cent from the previous year. This reverses two years of declining volumes.

NHA Mortgage-Backed Securities Yield Analysis – *December 31, 1996*



Source: Nesbitt Burns. *CMHC – MAC 1997*

NHA Mortgage-Backed Securities Yield Analysis – *Market at 12:25, January 24, 1997*

GOC description				
Coupon Rate	Maturity Date	Type of MBS	Spread Basis Pts.	Yield on MBS
6.25%	09/98	Open	18	4.28%
6.50%	08/99	Open	19	4.94%
5.50%	02/00	Open	21	5.22%
7.00%	09/01	Closed	13	5.88%
7.00%	09/01	Open	22	5.97%
7.00%	12/06	Open	41	7.11%
7.00%	12/06	Closed	20	6.90%

Source: Telerate; average for MBS spread. *CMHC – MAC 1997*

FOURTH QUARTER REPORT

$350 million in new issues

A total of 46 new NHA MBS pools, amounting to $349.7 million, were issued in the last quarter of 1996. This was 33 per cent lower than the previous quarter's volume. Nearly half of the pools issued, totaling $186.8 million, were single residential pools. Issues of multiple and mixed residential pools reached $140.5 million, more than double the previous quarter's issue. However, issues of social housing pools continued to decline, falling to $22.5 million in the closing quarter of 1996.

Low profitability for issuers combined with a steep yield curve continued to hamper MBS funding of mortgages. The MBS-GOC spread fell 1-2 basis points for prepayable pools but rose marginally for non-prepayable pools in the final three months of 1996.

1996 IN REVIEW

Limited supply of MBS securities was a major factor restraining growth in the MBS market. Restructuring in the financial sector in recent years has reduced the number of independent trust companies, which were among the major MBS issuers, thus limiting the supply of MBS. As well, several issuers did not sell their pools into the secondary market, further limiting the supply of MBS in the investment market.

Average pool size in 1996 was slightly over $11 million. Small pool sizes have reduced demand by institutional investors for MBS in the last couple of years.

Low profitability for issuers combined with a steep yield curve also constrained MBS issue in 1996. Tight spreads between mortgage rates and comparable Government of Canada bond rates (GOC) continued to squeeze mortgage profit margins. In 1996, the spread between five-year posted mortgage rates and comparable GOC averaged 148 basis points (each basis point is 1/100 of a per cent). Mortgage rate discounts offered by some lenders have further narrowed mortgage-GOC spreads in the last few years.

MBS-GOC spreads for five-year terms fell from 1995 levels by 5 basis points for non-prepayable pools, 8 basis points for multiples, 12 basis points for singles with PIP (penalty interest payment), and 13 basis points for single pools without PIP.

More than half of the pools issued in 1996 were single-family residential pools. Issues of mixed and multiple residential pools in 1996 reached $382 million, or 22 per cent of all new issues, an increase of 11 per cent from 1995. Repayments by lenders and shrinking activity in social housing limited new issues of social housing pools to $446 million, a one third drop from 1995. ■

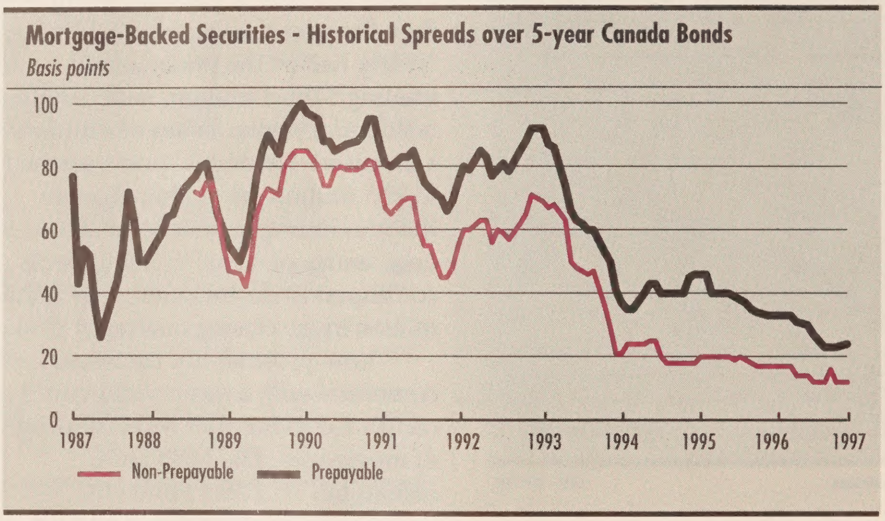
NHA MBS MARKET — AN INVESTOR'S PERSPECTIVE

by Hosen Marjaee, Portfolio Manager-Fixed Income, Bimcor Inc.

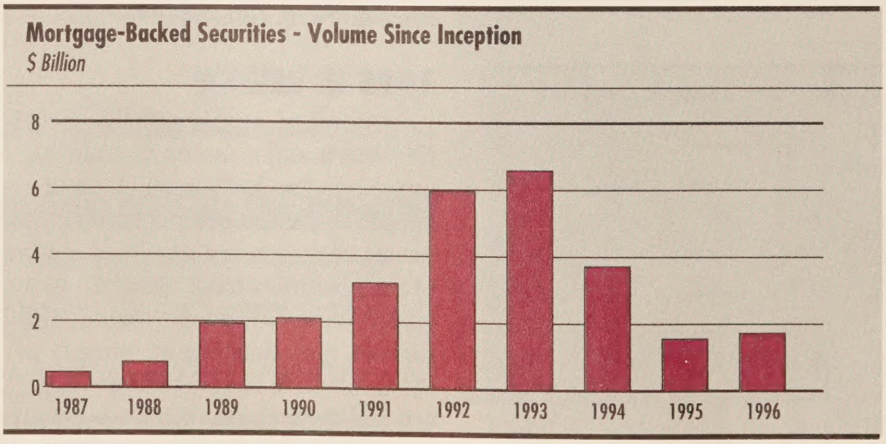
After improving in each of its first seven years, the new issue market waned for two years before rebounding in 1996. However, most issues that come to the market these days are small. Recent efforts by CMHC and others in the industry could re-ignite the original level of enthusiasm in this program.

In the late 1980s and early 1990s, investors had the opportunity to participate in an investment vehicle offering high credit quality, a very attractive yield spread, and reasonable liquidity. We were rewarded for this participation as yield spreads narrowed and rates of return on these instruments were much better than for comparable Government of Canada bonds (GOCs). Over the last few years, however, structural changes to the market have reduced the level of issuance and secondary market activity. The most important change was that the number of trust companies shrank, so much so that banks now issue most mortgages.

Currently, banks are not highly motivated to get mortgage portfolios off their balance sheets through securitization. The yield spread between mortgages and bank financing costs are favourable, mortgages are not a reservable asset, and banks have become much more capable of managing the optionality risks inherent in such a product. As a result of all these factors, the new issue market has practically dried up: most new issues are small in size and low in liquidity. Many investors still have a significant exposure to MBS market, but some have reduced their holdings of these securities to reduce their MBS exposure. We are hoping that CMHC and others in the industry can, by their efforts, re-ignite the original level of enthusiasm in this program. We could even get lucky if the banks consider other factors, such as their valuations and capital ratios for the U.S. listings, and lighten up their balance sheets through more securitization. ■



Source: Wood Gundy database — CMHC–MAC 1997



Source: CMHC — CMHC–MAC 1997

NHA Mortgage-Backed Securities Fourth Quarter Issues

October to December 1996

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-226	FIRST HERITAGE SAVINGS CR.UN.	7,202,722.62	6.250	October 1, 2001	7.72	21.61
96-412-234	M.R.S. TRUST COMPANY	4,768,177.49	6.250	October 1, 2001	7.69	24.36
96-412-242	THE EQUITABLE TRUST COMPANY	4,384,756.49	5.625	October 1, 2001	7.45	23.96
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-368	PEOPLES TRUST COMPANY	4,675,250.00	6.750	October 1, 2006	7.97	25.00
96-500-376	THE EQUITABLE TRUST COMPANY	4,330,622.00	7.625	October 1, 2016	8.64	25.00
96-500-384	THE EQUITABLE TRUST COMPANY	11,214,757.00	6.625	October 1, 2006	8.30	30.00
96-500-392	MARITIME LIFE ASSURANCE CO	20,553,916.97	6.500	May 1, 2001	7.67	20.88
96-500-400	THE EQUITABLE TRUST COMPANY	10,082,550.00	6.625	October 1, 2006	7.76	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-606	PEOPLES TRUST COMPANY	5,708,635.27	6.750	October 1, 2006	8.05	23.91
96-600-614	PEOPLES TRUST COMPANY	4,105,019.52	5.750	October 1, 2001	7.26	23.23
96-600-622	PEOPLES TRUST COMPANY	5,271,212.83	5.625	October 1, 2000	7.00	25.02
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-180	HONGKONG BANK OF CANADA	5,941,761.57	6.375	October 1, 2001	7.54	21.05
96-701-198	HONGKONG BANK OF CANADA	3,083,173.35	6.000	August 1,1999	7.18	22.49
96-701-172	HONGKONG BANK OF CANADA	14,395,184.64	7.125	October 1, 2000	7.94	19.84
96-701-206	HONGKONG BANK OF CANADA	4,629,078.24	6.000	October 1, 1998	7.67	20.60
96-701-214	FORTIS TRUST	2,054,066.52	5.750	July 1, 2001	8.31	21.25
SOCIAL HOUSING POOLS						
99-007-403	TORONTO-DOMINION BANK	3,358,156.75	6.000	January 1, 2002	6.83	20.54
MONTH OF ISSUE: November 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-291	VANC. CITY SVGS. CREDIT UNION	32,942,981.86	6.500	September 1, 2001	7.65	21.65
96-412-259	M.R.S. TRUST COMPANY	6,033,725.12	5.625	November 1, 2001	7.42	23.62
96-412-267	FIRST HERITAGE SAVINGS CR.UN.	4,939,751.65	5.375	November 1, 2001	7.25	21.63
96-412-275	FIRST HERITAGE SAVINGS CR.UN.	2,192,858.18	4.625	February 1, 1999	7.77	21.40
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-426	THE EQUITABLE TRUST COMPANY	18,008,063.01	5.750	November 1, 2001	7.16	26.94
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-655	PEOPLES TRUST COMPANY	10,790,557.80	5.125	November 1, 2001	6.30	24.11
96-600-663	PEOPLES TRUST COMPANY	4,625,900.00	6.375	November 1, 2006	7.55	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-248	HONGKONG BANK OF CANADA	5,770,718.18	6.250	September 1, 2000	7.48	21.08
96-701-255	FIRSTLINE/CIBC BANK	4,302,896.99	5.625	January 1, 2004	7.81	23.59
96-701-263	FIRSTLINE/CIBC BANK	3,324,836.76	5.875	December 1, 2004	7.50	23.55
96-701-271	FIRSTLINE/CIBC BANK	6,701,529.33	6.000	January 1, 2007	8.18	22.42
96-701-222	HONGKONG BANK OF CANADA	9,502,677.14	6.750	January 1, 1999	7.77	21.59
96-701-230	HONGKONG BANK OF CANADA	20,570,581.72	7.250	December 1, 2000	8.09	20.99
SOCIAL HOUSING POOLS						
99-007-429	BANK OF NOVA SCOTIA	5,398,905.90	4.250	November 1, 1999	5.23	30.26
99-007-411	TORONTO-DOMINION BANK	6,864,166.41	5.125	January 1, 2002	5.74	25.00
99-007-437	TORONTO-DOMINION BANK	2,658,673.12	5.375	November 1, 2001	5.97	30.42

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: December 1996						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-317	WESTMINSTER SAVINGS C.U.	2,993,111.87	5.375	November 1, 2001	7.35	21.24
96-412-325	THE EQUITABLE TRUST COMPANY	9,058,405.29	5.000	December 1, 2001	6.49	23.01
96-412-283	M.R.S. TRUST COMPANY	8,787,270.54	5.375	December 1, 2001	6.76	24.19
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-434	THE EQUITABLE TRUST COMPANY	5,222,619.60	6.125	November 1, 2006	7.99	24.86
96-500-418	PEOPLES TRUST COMPANY	3,862,601.52	6.250	December 1, 2006	7.30	24.65
96-500-442	THE EQUITABLE TRUST COMPANY	8,411,650.00	6.250	December 1, 2006	6.79	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-671	PEOPLES TRUST COMPANY	23,561,698.22	5.250	December 1, 2001	6.14	28.68
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-289	HONGKONG BANK OF CANADA	4,628,389.76	5.875	December 1, 2001	7.39	20.60
96-701-297	FIRSTLINE/CIBC	2,598,105.20	5.875	February 1, 2004	7.01	21.90
96-701-305	FIRSTLINE/CIBC	7,128,512.02	6.125	December 1, 2004	7.14	23.60
96-701-313	FIRSTLINE/CIBC	2,889,437.64	6.125	February 1, 2007	7.89	12.33
96-701-321	FIRSTLINE/CIBC	5,952,047.65	6.375	March 1, 2007	7.44	23.03
SOCIAL HOUSING POOLS						
99-007-452	PEOPLES TRUST COMPANY	4,233,013.97	5.750	May 1, 2003	8.36	21.42

OME BUYERS' PLAN HELPED MORE THAN 95,000 OUSEHOLDS IN 1996

Ali Manouchehri, Senior Economist – Capital Markets

ie federal government's Home Buyers' Plan helped over 95,000 households to become home owners 1996. They used more than $900 million in RRSP funds to make their purchases. Residents of ntario, Quebec, British Columbia, and Alberta accounted for 92 per cent of participants in the ogram.

der the Home Buyers' Program BP), the federal government allows nadians to withdraw up to $20,000 free from their RRSPs to purchase mes. The program has been limited to t-time home buyers since it was dified in March 1994. Withdrawals paid within 15 years remain tax-mpt.

Over 95,000 households took vantage of HBP to become home ners in 1996, an increase of 23 r cent over 1995. They withdrew me $906 million from their RRSPs buy homes. Since it began in 92, HBP has assisted more than 3,000 households to become me owners, channeling more an $4.6 billion from RRSP funds o the housing market across the untry.

The size of the average with-awal fell from $9,870 in 1993 to 161 in 1994 and recovered to 460 last year. A 4.0 per cent crease in the average withdrawal m the previous year coupled th the 23 per cent jump in the mber of participants led to a 28 r cent surge in total RRSP funds ed to purchase homes in 1996.

Participation in the program s varied from province to province. tario home buyers accounted for proximately 38 per cent of both rticipants and amounts with-awn between 1992 and 1996. iebec accounted for 24 per cent of rticipants and 26 per cent of the iounts withdrawn, followed by C., which accounted for 17 per cent of participants and 18 per cent of funds withdrawn. Saskatchewan home buyers withdrew on average $6,087 from RRSPs in 1996 compared to Quebec residents who withdrew $11,172, reflecting diverse housing markets and the purchasing preferences of home buyers in these provinces.

Participants typically withdrew funds from more than one RRSP to buy a home. The average number of withdrawals per participant has been around 1.3 since 1992.

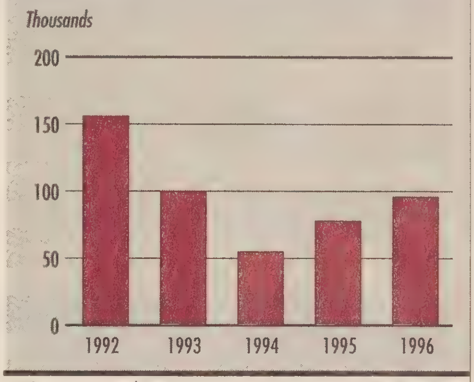
Improving economic fundaments, job prospects, and low mortgage rates are likely to encourage even more households to use the HBP to realize their dream of owning a home in 1997. ■

Provincial participation and average withdrawal in 1996

Province	*No. of participants*	*Average withdrawal*
Newfoundland	826	6,582
Prince Edward Island	199	7,175
Nova Scotia	1,927	6,732
New Brunswick	1,046	6,721
Quebec	32,299	11,172
Ontario	36,648	9,159
Manitoba	2,068	6,351
Saskatchewan	1,597	6,087
Alberta	7,263	7,370
British Columbia	11,638	8,932
Northwest Territories & Yukon	273	9,060

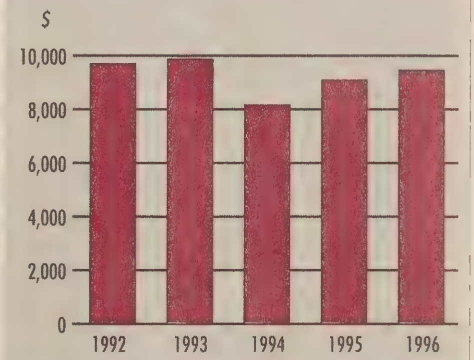
Sources: Revenue Canada CMHC – MAC 1997

Home Buyers' Plan
No. of participants



Source: Revenue Canada CMHC – MAC 1997

Home Buyer's Plan
Average withdrawal



Source: Revenue Canada CMHC – MAC 1997

NHA MORTGAGE-BACKED SECURITIES

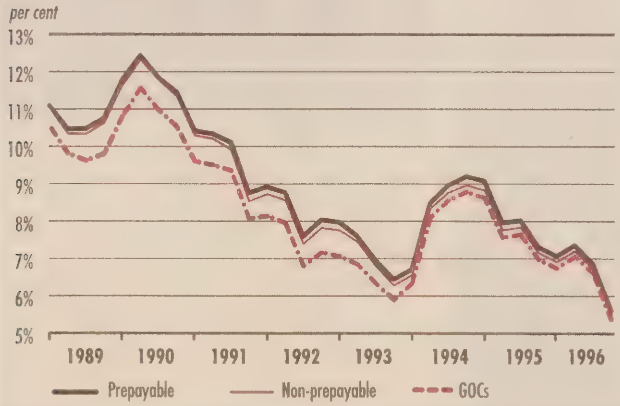
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1995	1996	95Q4	96Q1	96Q2	96Q3	96Q4
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	17,133.5	13,968.4	17,133.5	16,600.9	15,944.2	15,360.0	13,968.4
	Units	1,498	1,370	1,498	1,466	1,431	1,401	1,370
Residential, single (with PIP)[1]	$million	7,669.5	5,607.1	7,669.5	7,432.4	6,902.4	6,577.5	5,607.1
	Units	838	740	838	816	795	772	740
Residential, single (no PIP)	$million	714.6	997.7	714.6	733.0	800.7	926.2	997.7
	Units	80	131	80	87	99	115	131
Residential, multiple	$million	1,159.0	1,385.5	1,159.0	1,193.6	1,301.0	1,336.3	1,385.5
	Units	40	59	40	43	50	53	59
Social housing	$million	7,374.5	5,730.6	7,374.5	7,040.4	6,735.9	6,314.2	5,730.6
	Units	510	404	510	490	458	432	404
Mixed	$million	215.8	247.5	215.8	201.5	204.2	205.8	247.5
	Units	30	36	30	30	29	29	36
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,557.3	1,722.7	446.2	261.9	592.5	518.5	349.7
	Units	162	154	42	26	36	46	46
Residential, single (with PIP)	$million	415.4	522.2	106.3	103.9	141.2	193.8	83.3
	Units	71	37	11	7	8	12	10
Residential, single (no PIP)	$million	141.8	371.7	33.7	30.6	91.2	146.5	103.5
	Units	27	53	8	7	12	18	16
Residential, multiple	$million	330.7	254.9	165.4	42.8	117.9	40.1	54.1
	Units	18	21	9	4	7	4	6
Social housing	$million	656.9	446.4	132.8	84.7	220.8	118.4	22.5
	Units	43	31	12	8	8	10	5
Mixed	$million	12.4	127.5	8.1	0.0	21.4	19.7	86.4
	Units	3	12	2	0	1	2	9
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.09	6.73	7.31	7.07	7.36	6.86	5.61
MBS Prepayable (no PIP)		8.16	6.77	7.39	7.11	7.41	6.91	5.66
MBS Non-prepayable		7.89	6.59	7.15	6.91	7.20	6.73	5.51
MBS MMUF		7.97	6.64	7.23	6.98	7.26	6.77	5.55
Mortgage rates		9.16	7.92	8.53	8.03	8.50	8.13	7.03
GOCs		7.70	6.44	6.97	6.74	7.05	6.61	5.38
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)								
Prepayable (with PIP)		0.40	0.28	0.34	0.33	0.31	0.25	0.23
Prepayable (no PIP)		0.46	0.33	0.41	0.37	0.36	0.29	0.28
Non-prepayable		0.19	0.14	0.17	0.17	0.15	0.12	0.13
MMUF		0.28	0.20	0.25	0.24	0.21	0.15	0.18
Mortgage Rates		1.46	1.48	1.56	1.29	1.45	1.52	1.66

(1) PIP stands for Penalty Interest Payments   Not seasonally adjusted data.

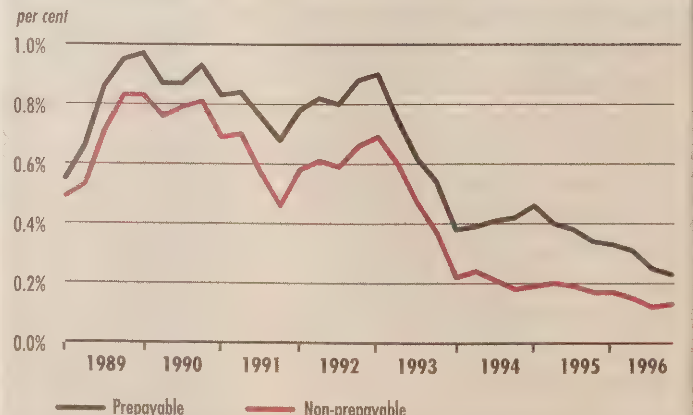
Sources: Nesbitt Burns; CMHC.   *CMHC – MAC 1997*

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.   *CMHC – MAC 1997*

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns.   *CMHC – MAC 1997*

non-family households, with more than 60 per cent increases by 2016.

Non-Family Households

One challenge that may arise will be the need to deal with the increasing number of non-family households. While most will be individuals, some will be non-family groups forming a household. Traditionally low rates of home ownership for both types of non-family households are increasing. This trend may require the alteration of financial instruments to better serve the needs of households with non-traditional living arrangements.

Immigrant Households

To adapt successfully to an increasing number of immigrant clients, institutions will have to go beyond merely developing a capacity to work in additional languages. They will have to develop a capacity to teach newcomers about Canadian financial and legal institutions and structures.

Clients of the Future

In the future, successful financial institutions will be responsive to an increasingly diverse group of clients with even more diverse needs. Those clients, particularly older and more experienced clients, are likely to be more demanding of their institutions for the exact services they want, and more willing to shop around.

Part of the demand for more diverse services will be for more personal attention from knowledgeable loan officers who are flexible in catering to client needs, and for less counter service "by the book" from clerks. This may increase costs, but it will also help financial institutions build stronger relationships with clients. ■

other hand, continued tightening i many rental markets, as evidenced by CMHC's recent Rental Market Survey, along side the partial dismantling of rental controls in Ontario, will continue to place upwar pressure on rents.

Our index relating the attractiveness of home ownership to tha of renting, is higher than it has bee in three decades, and is projected t increase further. The implications of this forecast on the residential real estate market are immense. Current economic fundamentals suggest that the housing recovery that had a solid beginning in 1996 will again dominate the news in 1997. ■

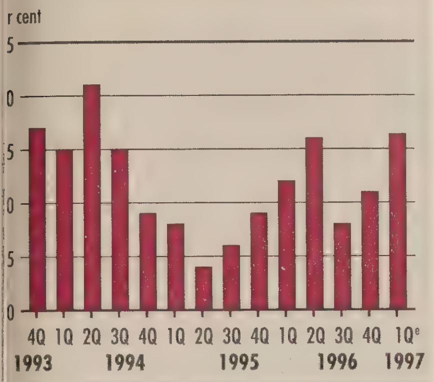
CMHC MORTGAGE MARKET

TRENDS

ARKET ANALYSIS CENTRE

SECOND QUARTER 1997

esidential Mortgage Credit Growth*
rom previous quarter)



ominal e: estimate
urces: Bank of Canada; CMHC. CMHC–MAC 1997

arket Share of Residential Mortgage Credit* (%)

	1Q96	2Q96	3Q96	4Q96	1Q97
anks	56.1	56.5	56.8	57.3	58.1
rusts	12.4	12.2	11.9	11.7	11.1
aisses & Co-op	14.1	14.1	14.2	14.1	13.9
ife	6.6	6.5	6.5	6.4	6.3
ension Funds	2.2	2.2	2.2	2.2	2.1
in. & Loan	8.6	8.6	8.4	8.3	8.4

estimate
Total may not add up to 100% due to rounding
ources: Bank of Canada; CMHC. CMHC–MAC 1997

INSIDE

MORTGAGE LENDING

HIGHER STARTS RAISE LENDING

by Ali Manouchehri, Senior Economist – Capital Markets

Higher housing starts and sales of new homes fueled by lower mortgage rates helped raise residential mortgage lending by 1.6 per cent in the first quarter of this year.

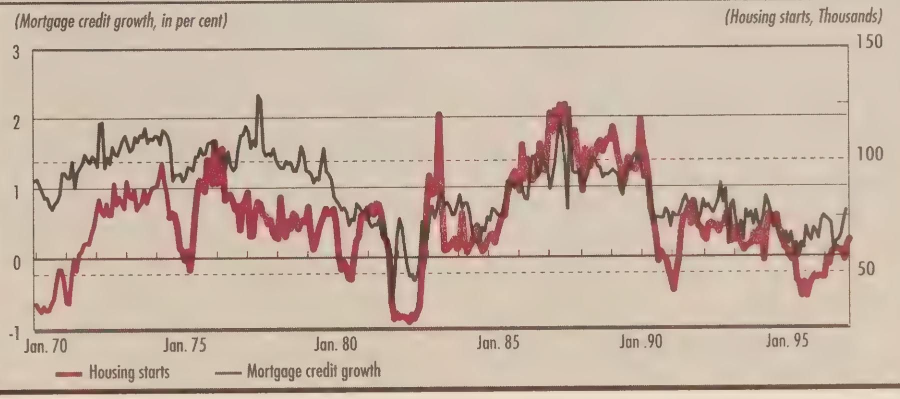
Residential mortgage lending in the opening quarter of 1997 rose at a pace not seen since mid 1994 thanks to a surge in new home construction. Low mortgage rates encouraged more households to venture into the housing market and purchase homes. The outstanding value of residential mortgage credit rose by 1.6 per cent to surpass $361 billion during the first quarter of 1997.

Construction and sale of new homes is a major contributor to mortgage credit growth, and mortgage credit outstanding moves in tandem with starts, as shown below. Further expansion of residential construction in the first three months of 1997 provided room for greater mortgage-lending activity. Seasonally adjusted housing starts rose by a healthy 19 per cent in the first quarter of 1997, and the new house price index rose slightly as well.

The resale market paused from a record breaking performance in the fourth quarter of 1996, partly in response to slightly higher

continued on page 6

Mortgage Credit Growth and Single Family Housing Starts



Seasonally adjusted monthly data
Sources: CMHC; Bank of Canada

CMHC–MAC 1997

ASSISTING FIRST-TIME BUYERS IS KEY TO GROWTH IN TODAY'S MORTGAGE MARKET

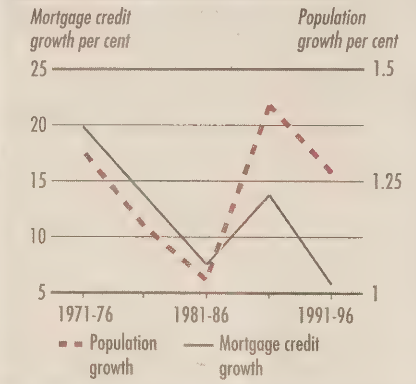
by Bart Melek, Economist, Scotiabank

The Canadian residential mortgage market has slowed in recent years, partly because of. reduced population growth and lacklustre consumer spending. There are, however, reasons for optimism: an improving economic climate has resulted in improved consumer spending, and somewhat better employment conditions are now attracting more first-time purchasers into the housing market.

Weak job prospects led many consumers to share accommodation in the early 1990s, and many young people have been living with their parents for a longer period of time. The number of potential first-time buyers in Canada — many of whom are between 25 and 34 years of age — peaked several years ago and is projected to decline until early next decade.

In short, relatively slow household formation will be a feature of Canada's housing landscape for some time. The growth of households will likely average about 160,000 annually over the next decade, sharply lower than the 195,000 pace of the past ten years. While outstanding mortgages grew an average of about 15 per cent annually between 1985 and 1990, growth decelerated to 6.6 per cent from 1990 to 1995 and edged only slightly ahead last year. This reflects sharply lower household formation, weak consumer confidence and a rising number of older baby boomers who are paying down their mortgages.

Slower population growth limits mortgage activity



Source: Scotiabank Economics CMHC – MAC 1997

Conditions improving for first-time buyers

On the bright side, however, an improving economic climate and somewhat better employment conditions are now attracting more first-time purchasers into the housing market. Affordability also has improved a great deal in recent years — a development leading to record existing home sales across Canada in 1996. About $1,000 per month is currently needed to carry mortgage interest and principal payments on an average-priced existing home, assuming a 10 per cent down payment. This is significantly below the $1,400 required in 1990.

This greater participation in home ownership — especially by younger Canadians — is expected to partly offset the impact of unfavourable demographics.

Delivering value to borrowers is essential

Within this environment, delivering value to borrowers, assisting first-time buyers, and targeting local markets will remain the key focus of financial institutions in the years ahead.

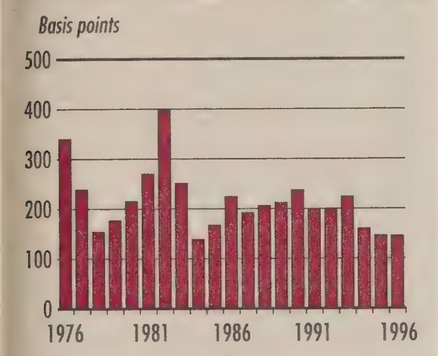
Seminars and information campaigns giving potential first-time buyers a realistic picture of the costs and benefits of owning a home have been instrumental in expanding home buying markets. The tax-free treatment of capital gains on a principal residence remains an attractive feature of home ownership. Sixty-four per cent of Canadian households now own their homes, compared with 62 per cent in 1986.

Many lenders have endeavoured to enhance value and provide greater flexibility for mortgage borrowers. Mortgage pre-approvals, rate guarantees, convertibility, early renewals and the ability to pre-pay mortgages and increase monthly payments are now standard mortgage features. Many of these options are particularly important for move-up buyers.

continued on page 3

Fierce competition among Canadian lenders is also benefiting borrowers. The spread between Government of Canada bonds and mortgage rates has narrowed significantly. The differential between a five-year Government of Canada bond yield and a five-year chartered bank mortgage rate declined to just 145 basis points in 1995-96, from over 200 basis points earlier in the decade.

Spreads between mortgages and bonds narrow (five-year term)



Sources: Scotiabank Economics CMHC – MAC 1997

These developments have provided significant value to borrowers and made it much easier for many Canadians to purchase homes. ■

RECORD NHA MBS ISSUE

by Ali Manouchehri, Senior Economist – Capital Markets

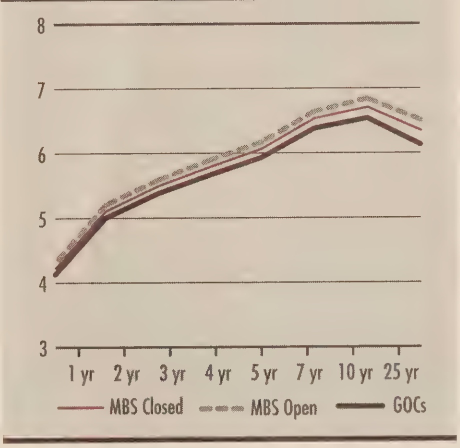
New NHA MBS issues totaled $2,234 million in the first quarter of 1997 setting a record. However, the extent to which it signals a more intense use of the Program remains to be seen.

In the first quarter of 1997, NHA MBS players issued 57 pools and garnered an all-time quarterly record of $2.2 billion in new issues. This was six times as high as the previous quarter and nine times that of the first quarter of 1996. This growth occurred because one issuer became very active in the NHA-MBS Program again. The extent to which this activity signals a more intense use of the Program remains to be seen.

Nearly three quarters of the pools issued in this quarter, totaling $2,073.7 million or 93 per cent of all issued amounts, were single residential pools. Issues of multiple residential pools in the quarter reached $65.4 million, which was 20 per cent higher than the previous quarter. Similarly, issues of social housing pools rose to $42.7 million from $22.5 million in the previous quarter. Only mixed pools, totaling $52.5 million, failed to match the previous quarter's level.

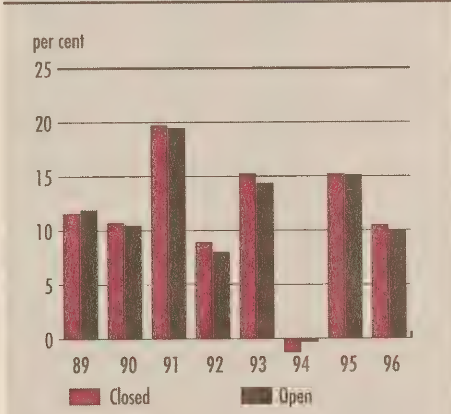
Low profitability for issuers combined with a steep yield curve will continue to hamper MBS funding of mortgages. The total return index for MBS continues to remain low, after falling to the 10 per cent range last year. Tight spreads between mortgage rates and comparable government of Canada bond (GOC) rates continued to squeeze the mortgage profit margin in the last quarter. In the opening quarter of 1997, MBS-GOC spreads for all pools reflected little change from the previous quarter, improving by one basis point. ■

NHA Mortgage-Backed Securities Yield Analysis – *March 31, 1997*



Source: Nesbitt Burns. CMHC – MAC 1997

MBS Total Return Index



Source: Wood Gundy CMHC – MAC 1997

INDICATORS OF MORTGAGE LENDING ACTIVITY

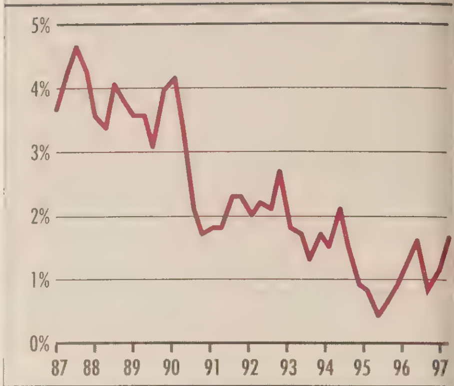
Mortgage Credit Outstanding[1] (in millions of dollars)

	1995	1996	96Q1	96Q2	96Q3	96Q4	97Q1[e]
TOTAL	335,717	349,756	343,578	348,500	351,456	355,490	361,309
% change	3.6	4.2	1.2	1.4	0.8	1.1	1.6
Banks	184,591	198,240	192,626	196,789	199,755	203,791	209,974
Trust Co.	44,790	42,111	42,715	42,383	41,771	41,574	40,155
Caisses & CO-OP	47,176	49,267	48,287	49,046	49,783	49,952	50,394
Life Ins. Co.	22,115	22,685	22,550	22,704	22,678	22,809	22,715
Pension Funds	8,007	7,743	7,730	7,728	7,790	7,725	7,622
Fin. & Loan	29,038	29,710	29,672	29,849	29,679	29,639	30,450

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Quarterly Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 19*

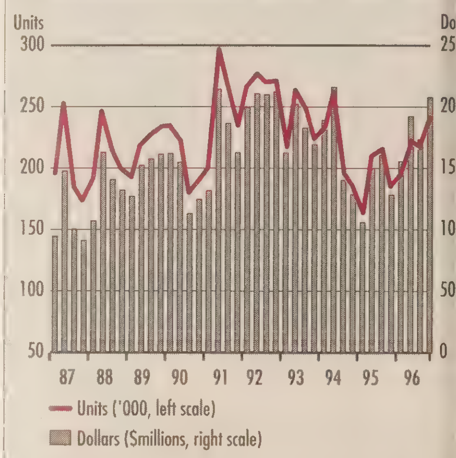
NHA and Conventional Loans Approved[1]

		1995	1996	96Q1	96Q2	96Q3	96Q4
TOTAL	$ millions	54,575	71,264	14,790	18,187	17,365	20,922
	Units	676,640	852,363	180,520	217,626	212,694	231,523
NHA	$ millions	22,219	29,870	6,898	7,724	6,821	8,427
	Units	277,205	361,893	83,740	94,412	84,271	99,470
Conventional	$ millions	32,356	41,394	7,892	10,463	10,544	12,495
	Units	399,435	490,470	96,780	123,214	128,423	142,053
By Type of Lender							
Banks	$ millions	34,902	51,328	10,481	12,865	12,491	15,491
	Units	405,220	581,814	122,804	144,965	142,374	171,671
Trust Co.	$ millions	6,992	8,563	1,730	2,245	2,046	2,542
	Units	80,706	96,157	19,680	24,690	24,154	27,633
Life Ins. Co.	$ millions	3,742	2,907	682	820	819	586
	Units	71,203	49,517	10,737	14,965	13,340	10,475
Others	$ millions	8,939	8,466	1,897	2,257	2,009	2,303
	Units	119,511	124,875	27,299	33,006	32,826	31,744

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1997*

NHA and Conventional Approvals



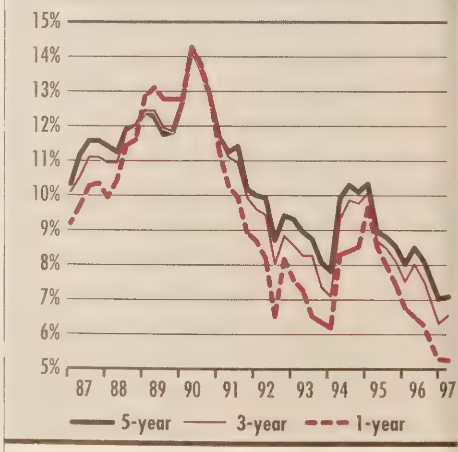
Source: CMHC. *CMHC – MAC 19*

Mortgage Rates (%) (Average of period)

	1995	1996	96Q1	96Q2	96Q3	96Q4	97Q1
1-Year Mortgage Rate	8.38	6.19	6.75	6.50	6.25	5.25	5.15
3-Year Mortgage Rate	8.81	7.33	7.50	8.00	7.59	6.25	6.43
5-Year Mortgage Rate	9.16	7.92	8.03	8.50	8.13	7.03	7.18

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 19*

N O T E

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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CANADIAN MBS MARKET

STRUCTURAL CHANGE IN THE CANADIAN MBS MARKET

by Stephen Smith, President, First National Financial Corporation

The MBS program expanded after it was introduced in 1987. But it declined substantially in 1994-95, as fewer independent issuers were active in the market and other mechanisms were set up to fund social housing pools.

From its inception in 1987 until 1993, the Canadian NHA Mortgage-Backed Security (MBS) market experienced substantial annual growth in new issue volume for single family residential loans (pool numbers with the 964/967 prefix) and social housing loans (pool numbers with a 990 prefix). There were record volumes of MBS issued in every year until 1994.

Most of this new issue volume was securitized by independent issuers unrelated to the chartered banks. In general, the banks have felt that their traditional sources of capital were more cost-effective than MBS issues and have not participated in the securitization of single-family residential loans. Table 1 illustrates the volume of MBS issued in comparison with the total volumes of NHA insured mortgages from 1990 to 1996. It shows that, in 1994, volumes of MBS declined dramatically from the previous year and dropped dramatically again in 1995. In 1996, total volumes were only 27 per cent of the volumes achieved in 1993. While in 1993, 27.3 per cent of all NHA insured mortgages were securitized; this had fallen to 6 per cent by 1996.

Since the beginning of 1994 the Canadian mortgage market has undergone a structural change that has had a significant impact on the Mortgage-Backed Securities market. This structural change has resulted in a substantial and sustained reduction in the volume of new issues of NHA Mortgage-backed Securities.

The major chartered banks determine interest rates for single-family mortgage loans in Canada. Prior to 1994, the chartered banks set the mortgage rate for single family residential at 200 basis points (1 basis point = 0.01%) above the Government of Canada five-year bond. The great majority of 964/967 pools issued comprised mortgages with a five-year term. At a spread of 200 basis points, independent issuers were able to originate and securitize substantial volumes of NHA-MBS.

In 1994, the banks were awash in liquidity as a result of the drop in the demand for credit flowing from the recession of the early nineties, and began to lower the interest rates paid on Guaranteed Investment Certificates (GICs) by 0.50 per cent in relation to Government of Canada bonds (GOCs). The banks maintained the spread between GICs and mortgages and, consequently, the average spread on five-year single family mortgages over Government of Canada five-year bonds declined to 150 basis points.

continued on page 6

Table 1 - NHA MBS New Issue Volume (million)

Year	Pool 964/967	Pool 965/966	Pool 990	Total MBS	Total NHA	MBS/NHA %
1990	1,309	48	746	2,103	9,771	21.52
1991	1,801	189	1,197	3,187	15,332	20.8
1992	3,744	162	2,053	5,959	23,839	25.0
1993	3,411	516	2,653	6,580	24,090	27.3
1994	2,163	367	1,190	3,720	25,407	14.6
1995	557	343	657	1,557	21,227	7.3
1996	894	382	446	1,723	29,239	5.9

POOL 964 / 967 SINGLE FAMILY LOANS
POOL 965 / 966 MIXED SINGLE/MULTIPLE LOANS
POOL 990 SOCIAL HOUSING LOANS

Source: CMHC. CMHC–MAC 1997

The average weekly spreads between the posted interest rates for five-year single-family residential mortgages and five-year Government of Canada bonds for the years 1990 through 1996 are shown in Table 2. Between 1990 and 1993, the spread exceeded 200 basis points. In 1994, 1995 and 1996, the spread was approximately 150 basis points.

Table 2 - Spread of Five-Year Mortgage Interest Rate over Five-Year Government of Canada Bond

1990	2.38%
1991	2.00%
1992	2.03%
1993	2.22%
1994	1.53%
1995	1.43%
1996	1.48%

Source: Bank of Canada. CMHC – MAC 1997

Moreover, during the past several years, increasing competition among the chartered banks for mortgage assets and client relationships has resulted in heavy discounting from posted rates. A reduction of 50 basis points on all terms is the starting point at most institutions, and further reductions are quite common. Among institutions that originate mortgages through referral sources, such as real estate agents and mortgage brokers, the actual market rate is 75 basis points below the posted rate.

From a spread of 200 basis points over the benchmark five-year GOC bond in 1993, the spread on mortgages acquired in the competitive marketplace by mortgage lenders in Canada has steadily declined to a current spread of 75 basis points. With these declining spreads, it is no longer profitable for independent securitizers of NHA-MBS to originate and securitize five-year single-family mortgages. As a consequence, a number of prominent issuers have left the market entirely and new issue volumes declined in 1994, 1995, and 1996.

At the same time that 964/967 pools have declined, so have 990 pools. These pools consist of CMHC-insured mortgages on social housing projects which receive government subsidies. Prior to 1994, as the mortgages on these projects were originated or renewed, they were tendered to institutional lenders for securitization. These volumes were quite substantial. In 1994, CMHC began direct funding of all social housing mortgages it administered. This resulted in a substantial reduction in the issuance of 990 pools after 1994. The volume that remains represents social housing activity in a select number of provinces. ■

mortgage rates. Sales slowed dow by 8 per cent while average prices inched up 0.5 per cent in the first three months of 1997, according to MLS.[1] Slower resale markets limited the extent of increase in mortgage lending.

Low interest rates are expected t further stimulate the economy this year and improve the environmen for mortgage lending. Low mortgage rates imply lower home ownership costs and increased housing starts, sales, and prices in the months ahead..

Market shares of outstanding mortgage credit by lender type in the last quarter continued to tilt in favour of chartered banks. Thei share was 58.1 per cent, compared with 11.1 per cent for trust companies, 13.9 per cent for credit union 6.3 per cent for life insurance companies, 2.1 per cent for pensio funds, and 8.4 per cent for finance and loan companies. ■

(1) Multiple Listing Service (MLS) is a registered certificat mark owned by the Canadian Real Estate Association.

NHA Mortgage-Backed Securities First Quarter Issues
January to March 1997

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-309	SUN LIFE TRUST COMPANY	20,004,814.81	5.500	2002-01-01	6.50	21.72
96-412-333	M.R.S. TRUST COMPANY	8,014,363.16	5.750	2002-01-01	6.54	23.96
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-459	THE EQUITABLE TRUST COMPANY	6,953,300.00	6.125	2007-01-01	6.74	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-697	CIBC MTGS INC.(FIRSTLINE MTG)	13,280,550.00	6.500	2007-01-01	7.00	30.00
96-600-689	PEOPLES TRUST COMPANY	7,922,248.37	5.375	2002-01-01	6.23	21.59
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-354	CIBC MTGS INC.(FIRSTLINE MTG)	2,326,923.82	6.250	2004-03-01	6.91	22.16
96-701-362	CIBC MTGS INC.(FIRSTLINE MTG)	8,663,072.01	6.250	2004-12-01	7.11	24.44
96-701-370	CIBC MTGS INC.(FIRSTLINE MTG)	5,413,307.42	6.500	2007-03-01	7.40	21.72
96-701-339	CANADA TRUSTCO MORTGAGE CO.	488,143,834.47	6.250	2001-09-01	7.64	20.78
96-701-347	CIBC MTGS INC.(FIRSTLINE MTG)	2,390,621.43	6.000	2004-03-01	7.24	10.90
SOCIAL HOUSING POOLS						
99-007-460	BANK OF NOVA SCOTIA	17,269,195.67	5.125	2002-01-01	5.69	29.04
MONTH OF ISSUE: February 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-366	FIRST HERITAGE SAVINGS CR.UN.	8,354,159.03	5.625	2002-02-01	6.61	22.95
96-412-341	VANC. CITY SVGS. CREDIT UNION	18,750,658.28	5.600	1999-12-01	6.74	21.71
96-412-358	VANC. CITY SVGS. CREDIT UNION	33,040,406.08	6.000	2001-12-01	7.36	21.31
96-412-374	FIRST HERITAGE SAVINGS CR.UN.	4,251,431.22	5.500	2001-02-01	6.45	21.02
96-412-382	FIRST HERITAGE SAVINGS CR.UN.	5,395,480.71	4.875	2000-02-01	5.98	24.86
96-412-390	THE EQUITABLE TRUST COMPANY	7,138,300.46	4.875	2001-02-01	5.88	22.85
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-467	THE EQUITABLE TRUST COMPANY	3,742,900.00	3.750	1998-02-01	4.58	25.00
96-500-475	THE EQUITABLE TRUST COMPANY	11,591,654.01	5.375	2002-02-01	6.30	24.12
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-705	PEOPLES TRUST COMPANY	15,506,822.94	5.250	2002-02-01	6.36	19.29
96-600-713	PEOPLES TRUST COMPANY	14,481,018.75	6.250	2007-02-01	7.47	24.15
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-461	CIBC MTGS INC.(FIRSTLINE MTG)	3,303,088.36	5.625	2004-04-01	6.91	11.18
96-701-479	CIBC MTGS INC.(FIRSTLINE MTG)	7,034,162.77	5.875	2004-04-01	6.93	22.18
96-701-487	CIBC MTGS INC.(FIRSTLINE MTG)	2,583,189.77	5.750	2005-03-01	7.11	12.00
96-701-495	CIBC MTGS INC.(FIRSTLINE MTG)	7,805,183.33	5.875	2004-12-01	7.15	23.56
96-701-503	CIBC MTGS INC.(FIRSTLINE MTG)	5,448,356.56	6.000	2007-05-01	7.39	12.94
96-701-511	CIBC MTGS INC.(FIRSTLINE MTG)	8,293,860.38	6.250	2007-05-01	7.41	21.58
96-701-396	CANADA TRUSTCO MORTGAGE CO.	294,816,535.36	5.700	2002-01-01	6.94	21.04
96-701-404	CANADA TRUSTCO MORTGAGE CO.	122,857,655.97	6.500	2001-07-01	7.53	19.83
96-701-412	CANADA TRUSTCO MORTGAGE CO.	281,981,915.11	6.500	2001-01-01	8.17	19.67
96-701-420	CANADA TRUSTCO MORTGAGE CO.	120,940,556.18	7.500	2000-08-15	8.44	19.21
96-701-438	CANADA TRUSTCO MORTGAGE CO.	76,001,812.24	5.250	2001-01-15	6.50	21.17
96-701-446	THE EQUITABLE TRUST COMPANY	3,038,493.05	6.250	2007-02-01	7.31	21.60
SOCIAL HOUSING POOLS						
99-007-478	TORONTO-DOMINION BANK	6,942,841.65	5.375	2002-03-01	6.09	20.29
99-007-486	HONGKONG BANK TRUST COMPANY	18,497,606.77	4.250	2000-01-01	4.83	30.12

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: March 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-408	SUN LIFE TRUST COMPANY	14,023,684.77	5.500	2002-03-01	6.74	22.06
96-412-416	VANC. CITY SVGS. CREDIT UNION	55,885,254.32	5.620	2002-01-01	6.69	21.23
96-412-424	VANC. CITY SVGS. CREDIT UNION	42,928,186.42	5.200	2000-02-01	6.36	21.04
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-483	THE EQUITABLE TRUST COMPANY	3,266,500.00	4.625	2000-03-01	5.85	24.83
96-500-491	THE EQUITABLE TRUST COMPANY	11,180,229.51	6.250	2007-03-01	7.02	24.22
96-500-509	THE EQUITABLE TRUST COMPANY	2,590,026.00	6.875	2017-03-01	7.44	25.00
96-500-517	CIBC MTGS INC.(FIRSTLINE MTG)	13,128,178.78	6.375	2007-06-01	7.13	26.56
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-721	PEOPLES TRUST COMPANY	14,234,130.00	5.500	2002-03-01	6.59	21.96
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-537	CANADA TRUSTCO MORTGAGE CO.	24,376,695.85	6.750	2001-08-01	7.89	20.08
96-701-545	CANADA TRUSTCO MORTGAGE CO.	25,280,896.40	6.375	2001-02-01	8.02	19.90
96-701-552	CANADA TRUSTCO MORTGAGE CO.	17,540,904.03	7.500	2000-09-01	8.48	19.12
96-701-388	FORTIS TRUST	2,144,637.99	5.250	2000-03-01	6.79	23.10
96-701-529	CANADA TRUSTCO MORTGAGE CO.	159,874,549.03	4.875	2002-02-01	6.44	21.02
96-701-560	CANADA TRUSTCO MORTGAGE CO.	44,112,699.06	4.500	2001-02-01	6.17	20.76
96-701-578	CANADA TRUSTCO MORTGAGE CO.	33,710,035.65	6.250	2000-09-01	7.54	20.27
96-701-586	CANADA TRUSTCO MORTGAGE CO.	31,846,904.90	6.250	2000-09-01	7.83	18.99
96-701-594	HONGKONG BANK OF CANADA	12,329,285.78	5.250	2001-02-01	6.21	21.84
96-701-602	HONGKONG BANK OF CANADA	33,429,085.40	5.625	2002-02-01	6.72	21.36
96-701-610	HONGKONG BANK OF CANADA	8,313,437.44	4.500	2000-02-01	5.78	21.79
96-701-628	THE EQUITABLE TRUST COMPANY	14,490,077.96	5.625	2002-03-01	6.30	23.60
96-701-636	CIBC MTGS INC.(FIRSTLINE MTG)	2,740,627.86	6.125	2004-05-01	7.04	20.17
96-701-644	CIBC MTGS INC.(FIRSTLINE MTG)	4,630,617.15	6.125	2005-02-01	7.21	24.10

EVOLUTION OF MORTGAGE MUTUAL FUNDS IN CANADA

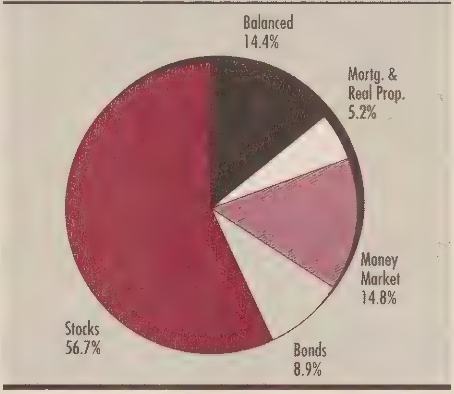
by Ali Manouchehri, Senior Economist – Capital Markets

Mutual funds have become more popular in the 1990s. Their accumulated assets, valued at over $275 billion in March 1997, represent a remarkable annual growth of 36 per cent in this decade. However, mortgage mutual funds, amounting to $13.6 billion by last March, have grown at a slower rate of 23 per cent annually over the same period and have been stable recently.

MORTGAGE MUTUAL FUNDS AS OF MARCH 1997:

- $13.6 billion in assets
- 1.2 million unit holder accounts
- more than 20 funds
- banks account for half of the assets
- 5 per cent of mutual fund assets compared to 13 per cent in 1993

Mutual Funds Assets
March 1997



Source: Investment Funds Institute of Canada (IFIC)   CMHC – MAC 1997

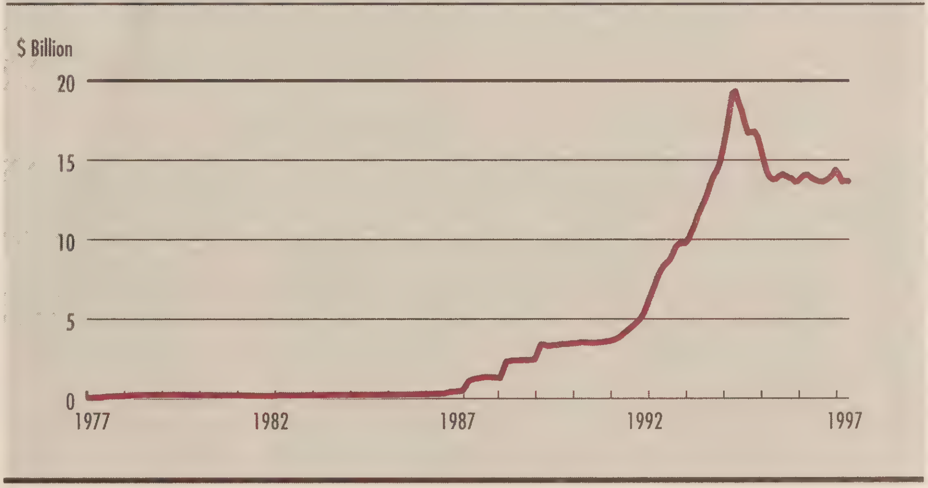
Mutual funds were introduced in Canada in the early 1930s and grew steadily, reaching $40.5 billion by 1990. Owing to their features, mutual funds have gained immense popularity since 1991, growing at a remarkable annual rate of 36 per cent to show assets in excess of $275 billion by the end of March 1997. Asset composition of these funds shows that mortgage funds, valued at $13.6 billion, currently comprise about 5 per cent of the value of all funds.

Mortgage Mutual Funds (MMFs) are usually open-end funds which invest in Canadian residential mortgages, although in some cases they invest in commercial mortgages as well. Some funds hold only first mortgages insured under the National Housing Act (NHA), while others invest in conventional mortgages or Mortgage Backed Securities. MMFs offer investors a number of advantages, including portfolio diversification, liquidity, transferability, income flow, and professional portfolio management.

The funds invest in mortgages secured by real estate. When mortgages are insured under NHA, the risk is further reduced. As a result, MMFs are associated with relatively lower risk and return. Over 20 of these funds managed assets that were valued at $13.6 billion and held in some 1.2 million unitholder accounts at the end of the first quarter of 1997.

continued on page 9

Mortgage Mutual Fund Assets



1997 data covers up to March 1997
Source: Bank of Canada, CMHC   CMHC – MAC 1997

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

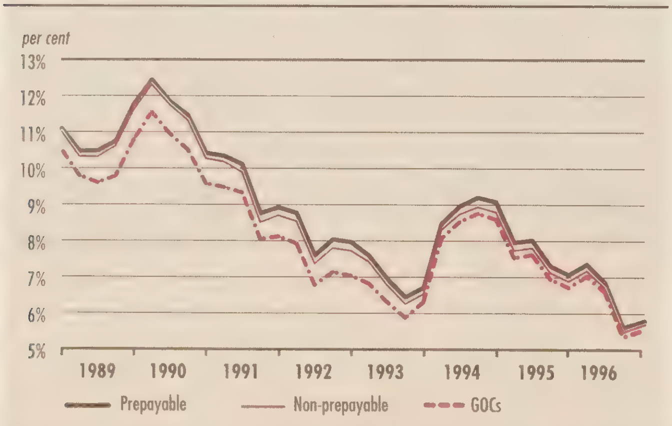
		1995	1996	96Q1	96Q2	96Q3	96Q4	97Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	17,133.5	13,968.4	16,600.9	15,944.2	15,360.0	13,968.4	14,626.0
	Units	1,498	1,370	1,466	1,431	1,401	1,370	1,355
Residential, single (with PIP)[1]	$million	7,669.5	5,607.1	7,432.4	6,902.4	6,577.5	5,607.1	4,729.1
	Units	838	740	816	795	772	740	714
Residential, single (no PIP)	$million	714.6	997.7	733.0	800.7	926.2	997.7	2,787.6
	Units	80	131	87	99	115	131	162
Residential, multiple	$million	1,159.0	1,385.5	1,193.6	1,301.0	1,336.3	1,385.5	1,444.5
	Units	40	59	43	50	53	59	64
Social housing	$million	7,374.5	5,730.6	7,040.4	6,735.9	6,314.2	5,730.6	5,387.7
	Units	510	404	490	458	432	404	372
Mixed	$million	215.8	247.5	201.5	204.2	205.8	247.5	277.0
	Units	30	36	30	29	29	36	43
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,557.3	1,722.7	261.9	592.5	518.5	349.7	2,234.2
	Units	162	154	26	36	46	46	57
Residential, single (with PIP)	$million	415.4	522.2	103.9	141.2	193.8	83.3	217.8
	Units	71	37	7	8	12	10	11
Residential, single (no PIP)	$million	141.8	371.7	30.6	91.2	146.5	103.5	1,855.9
	Units	27	53	7	12	18	16	31
Residential multiple	$million	330.7	254.9	42.8	117.9	40.1	54.1	65.4
	Units	18	21	4	7	4	6	5
Social housing	$million	656.9	446.4	84.7	220.8	118.4	22.5	42.7
	Units	43	31	8	8	10	5	3
Mixed	$million	12.4	127.5	0.0	21.4	19.7	86.4	52.5
	Units	3	12	0	1	2	9	7
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.09	6.73	7.07	7.36	6.86	5.61	5.86
MBS Prepayable (no PIP)		8.16	6.77	7.11	7.41	6.91	5.66	5.91
MBS Non-prepayable		7.89	6.59	6.91	7.20	6.73	5.51	5.76
MBS MMUF		7.97	6.64	6.98	7.26	6.77	5.55	5.81
Mortgage rates		9.16	7.92	8.03	8.50	8.13	7.03	7.18
GOCs		7.70	6.44	6.74	7.05	6.61	5.38	5.62
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)								
Prepayable (with PIP)		0.40	0.28	0.33	0.31	0.25	0.23	0.24
Prepayable (no PIP)		0.46	0.33	0.37	0.36	0.29	0.28	0.29
Non-prepayable		0.19	0.14	0.17	0.15	0.12	0.13	0.14
MMUF		0.28	0.20	0.24	0.21	0.15	0.18	0.19
Mortgage Rates		1.46	1.48	1.29	1.45	1.52	1.66	1.56

(1) PIP stands for Penalty Interest Payments Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC.

CMHC – MAC 199

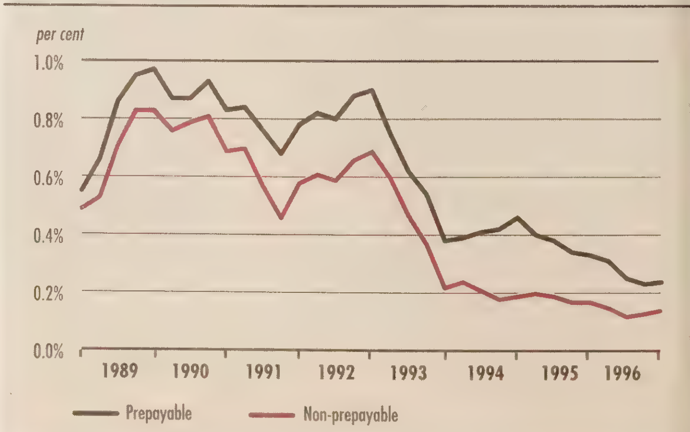
Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 1997

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns.

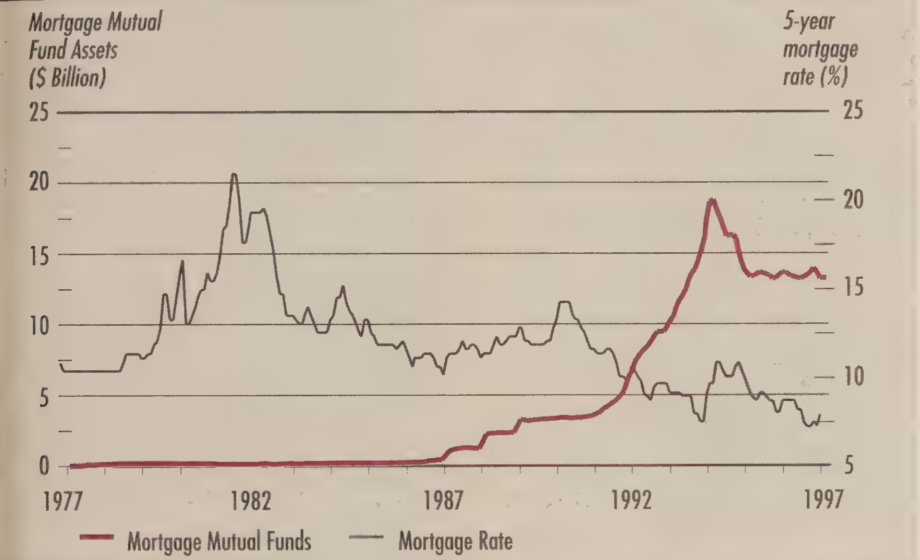
CMHC – MAC 199

Mortgage Mutual Funds Activity Summary ($000)

	1st Quarter 97	1st Quarter 96
Gross Sales	1,224,558	966,256
Reinvested Distributions	139,138	157,582
Redemptions	915,810	921,513
Net Sales	447,886	202,325

Source: Investment Funds Institute of Canada (IFIC) CMHC – MAC 1997

Mortgage Mutual Fund Assets and 5-year Mortgage rate



Source: Revenue Canada CMHC – MAC 1997

The return and risk characteristics of MMFs have limited their growth. When interest rates rise, mortgage prices fall leading to lower returns for these funds. Moreover, in the growing Canadian mutual fund market, MMFs have lost market share to mutual domestic and foreign-equity funds and balanced funds that have produced higher rates of return in the last several years.

MMF issuers have changed as the finance industry has evolved. Chartered banks were the major issuers of MMFs until the mid 1980s, and have made a comeback in 1990s to recapture the top position in the market. Trust companies have continued to lose ground in the MMF market since late 1980s. A trade mark of the 1990s has been the emergence of other players such as independent investment advisors. By early 1997, they had captured nearly one third of the MMF market. ■

June 1, 1997 marks the 10th anniversary of CMHC's Market Analysis Centre

Our Market Analysis staff would like to thank our valued subscribers for their business over the past ten years

CANADA MORTGAGE AND HOUSING CORPORATION

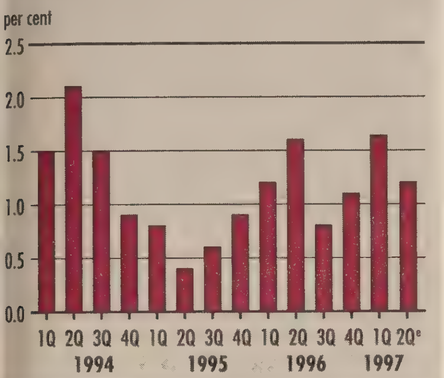
CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE

THIRD QUARTER 1997

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC CMHC – MAC 1997

Market Share of Residential Mortgage Credit* (%)

	2Q96	3Q96	4Q96	1Q97	2Q97^e
Banks	56.4	56.8	57.2	57.9	58.4
Trusts	12.1	11.9	11.7	11.0	10.2
Caisses & Co-op	14.1	14.2	14.1	14.0	14.0
Life	6.5	6.4	6.4	6.3	6.2
Pension Funds	2.2	2.2	2.2	2.2	2.1
Fin. & Loan	8.7	8.5	8.4	8.7	9.0

e: estimate
*Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC CMHC – MAC 1997

INSIDE

MORTGAGE LENDING

MORTGAGE LENDING UP: FEWER LOANS, HIGHER VALUES

by Ali Manouchehri, Senior Economist – Capital Markets

Residential mortgage lending grew at a more sustainable pace during the second quarter of 1997 as home-building and resale activity eased somewhat. Lower mortgage rates will continue to support growth in mortgage lending over the remainder of 1997.

Residential mortgage lending grew at healthy pace in the second quarter of 1997 as an improved economic climate and low mortgage rates brought more first-time buyers into the housing market. The outstanding value of residential mortgage credit grew by 1.1 per cent over the previous quarter to reach $366.4 billion. This growth followed a revised 1.8 per cent expansion in the first quarter of the year, leading to a 5.2 per cent rise over the same quarter in 1996.

Fewer new homes but higher prices

The new homes market shrank in the second quarter following a hefty 20 per cent increase in the previous quarter, setting the stage for slower mortgage lending compared to the previous quarter. Seasonally adjusted housing starts declined by 6.3 per cent to 145,400 units, down from 155,200 units in the previous quarter. However, a 1.0 per cent increase in the new house price index partially offset the impact of lower housing starts.

Changes in the composition of home buyers as well as the type of homes purchased also account for some of the increase in mortgage lending. As housing markets improved in 1996 and early 1997, more move-up buyers stepped into the market, purchasing luxuries and expensive homes which often require larger mortgages.

First-time buyers key to mortgage growth

The story was similar for the resale market. Sales of existing homes were down by 8.1 per cent but the average sale price increased by 3.1 per cent, according to the MLS.[1] While the slower pace of resale activity dampened the rate of mortgage credit growth, lower mortgage rates attracted more first-time buyers, who normally require larger mortgages, and helped to raise mortgage lending volume.

(1) Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

continued on page 9

MORTGAGE LENDING OUTLOOK: SECOND HALF OF 1997 AND 1998

by Ali Manouchehri, Senior Economist-Capital Markets

Residential mortgage lending will continue its gradual expansion in the second half of 1997 and throughout 1998 to reach $399 billion in 1998. The major factors influencing mortgage lending will include housing starts, new house prices, sales and prices of existing homes, and mortgage rates. Both short- and long-run factors will support a $19.6 billion increase of 5.5 per cent growth in outstanding mortgage loans this year and an additional $23.8 billion, or 6.3 per cent next year.

Will mortgage lending decline in the long-run?

Economic and demographic factors play a critical role in determining the demand for mortgage loans and the level of outstanding loans. The 25-44 age group constitutes the primary group of home buyers. When the number of individuals in this age group peaked in 1989, as did the size of this group relative to the whole population, so did the growth in mortgage credit outstanding (see Graph 1). This suggests that because baby-boomers have already passed through their home-buying cycle, mortgage lending will ease over the next few years. However, this long-term trend could be counterbalanced by medium- and short-term factors, such as rising employment, lower mortgage rates, and improving consumer confidence.

What will happen over the next 3 to 15 months?

Housing starts provide clue

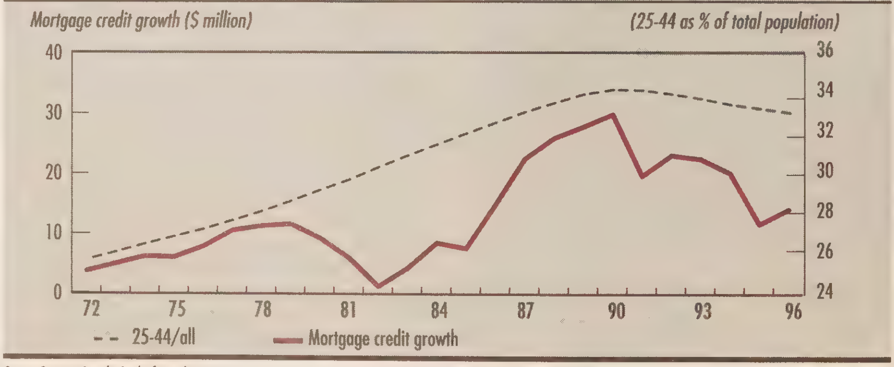
In the short-to-medium time frame, housing starts are among the best predictors of mortgage lending and outstanding mortgage loans. Growth in outstanding mortgages closely follows housing starts (see Graph 2) since buyers of new homes often require mortgages. Quantitative analysis based on 1988-1997 data indicates a close relationship between mortgage credit outstanding and housing starts, whether for single-detached homes or total starts. Building permits could also serve as predictors of mortgage lending activity.

Another factor that influences mortgage lending is the price of new homes. More expensive homes will often require larger mortgages. Graph 3, comparing outstanding mortgage credit changes and the New House Price Index, shows this relationship clearly. However, this relationship is not as strong as between mortgage credit and housing starts. This is partially because the demand for new homes shifts according to the price of new homes.

MLS adds clarity to the picture

Sales of existing homes also contribute to mortgage lending, though to a lesser extent. As more existing homes are sold,

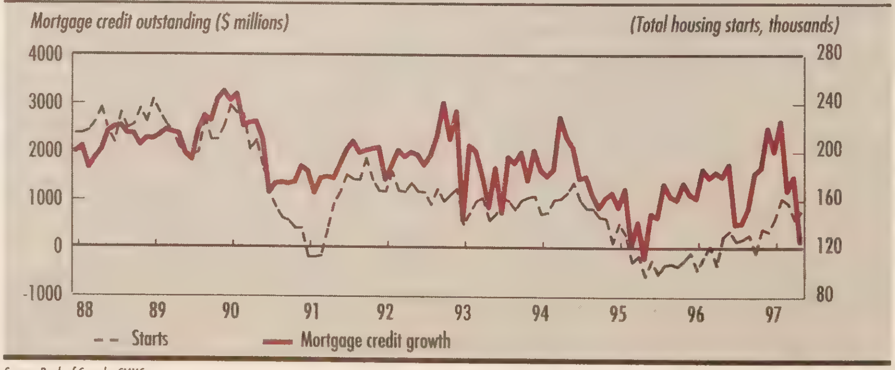
Graph 1: Changes in outstanding mortgage credit versus changes in 25-44 years age group



Source: Statistics Canada, Bank of Canada, CMHC

CMHC – MAC 1997

Graph 2: Mortgage credit growth versus total housing units



Source: Bank of Canada, CMHC

CMHC – MAC 1997

particularly for higher prices or to first-time buyers, there are often additional financing requirements and more outstanding mortgage credit. This is illustrated in Graph 4, showing MLS sales and changes in outstanding mortgage credit.

Mortgage rates complete the story

Buyers are attracted to the market by lower mortgage rates and declining home ownership costs. Graph 5 shows the relationship between changes in outstanding mortgage credit and five-year mortgage rates. However, the effects of mortgage rates on lending are seen more directly in the number of sales of both new and existing homes, so this relationship is not as significant as those in graphs 2 and 4, above.

Where do we go from here?

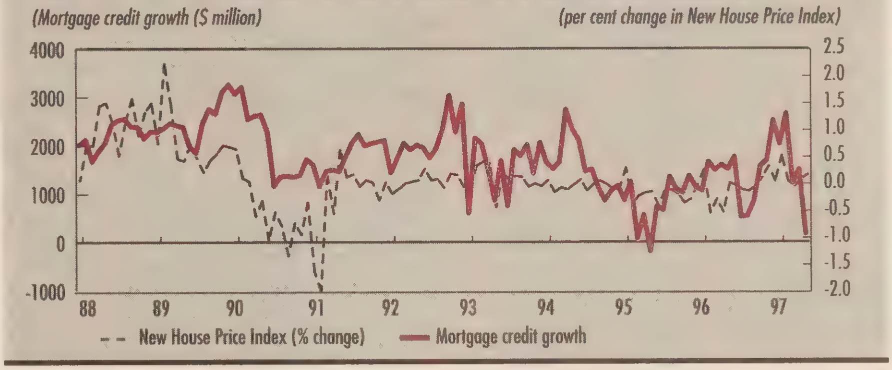
Underlying economic fundamentals continue to point to a strong growth in output and jobs this year and next, along with low mortgage rates. We anticipate that our strengthening economy and low mortgage rates will keep real estate markets active enough to more than compensate for the adverse impact of long-term demographic factors over the forecast horizon. Even though home owners will continue to exercise mortgage prepayment options, we expect outstanding mortgage credit to grow by 5.5 per cent or $19.6 billion, in 1997 and by an additional 6.3 per cent or $23.8 billion, next year, to reach $399 billion in 1998. ■

Forecast Assumptions (1)	1996	1997	1998
Housing starts - Totals	124	150	160
% change		21.3	6.7
New House Price Index	1.32	1.33	1.3
% change		1.1	2.2
MLS sales amount ($billions)	4.0	4.4	4.6
% change		9.6	4.4
Mortgage credit outstanding ($billions)	356.0	375.6	399.4
Increase		19.6	23.8
% change		5.5	6.3

(1) Annual averages except for mortgage credit outstanding that is based on fourth quarter.

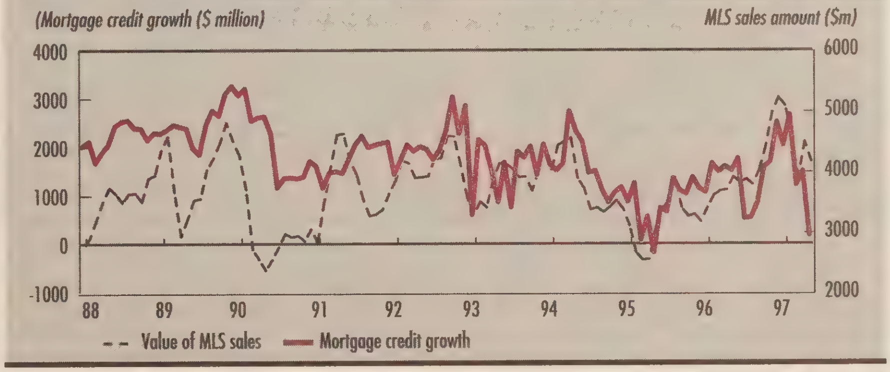
Source: CMHC

Graph 3: Mortgage credit changes versus changes in New house price index



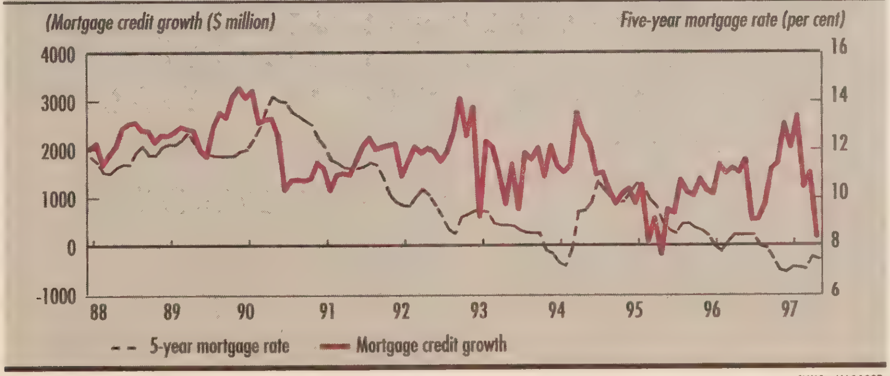
Source: Statistics Canada, Bank of Canada, CMHC CMHC – MAC 1997

Graph 4: Mortgage credit growth versus MLS sales amount



Source: MLS, Bank of Canada, CMHC CMHC – MAC 1997

Graph 5: Changes in outstanding mortgage credit versus 5-year mortgage rate



Source: Bank of Canada, CMHC CMHC – MAC 1997

INDICATORS OF MORTGAGE LENDING ACTIVITY

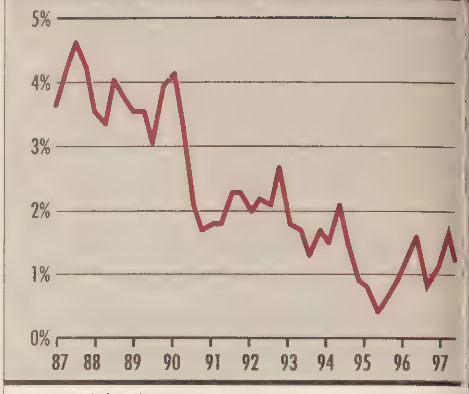
Mortgage Credit Outstanding[1] (in millions of dollars)

	1995	1996	96Q2	96Q3	96Q4	97Q1	97Q2[e]
TOTAL	336,402	350,238	348,953	351,747	355,990	362,398	366,396
% change	3.8	4.1	1.4	0.8	1.2	1.8	1.1
Banks	184,591	198,240	196,789	199,755	203,791	209,877	214,132
Trust Co.	44,764	42,111	42,383	41,771	41,594	39,735	37,522
Caisses & CO-OP	47,176	49,322	49,046	49,783	50,170	50,823	51,464
Life Ins. Co.	22,350	22,721	22,704	22,675	22,721	22,697	22,599
Pension Funds	8,007	7,773	7,728	7,790	7,843	7,831	7,829
Fin. & Loan	29,514	30,072	30,302	29,973	29,871	31,436	32,850

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Quarterly Residential Mortgage Credit Growth



Sources: Bank of Canada; CMHC. *CMHC – MAC 199*

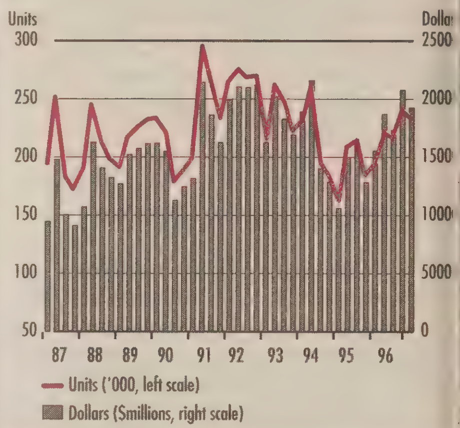
NHA and Conventional Loans Approved[1]

		1995	1996	96Q2	96Q3	96Q4	97Q1
TOTAL	$ millions	54,575	40,142	18,187	17,365	20,922	19,220
	Units	676,640	452,473	217,626	212,694	231,523	210,950
NHA	$ millions	22,219	16,808	7,724	6,821	8,427	8,381
	Units	277,205	193,135	94,412	84,271	99,470	93,665
Conventional	$ millions	32,356	23,334	10,463	10,544	12,495	10,839
	Units	399,435	259,338	123,214	128,423	142,053	117,285
By Type of Lender							
Banks	$ millions	34,902	29,885	12,865	12,491	15,491	14,394
	Units	405,220	321,272	144,965	142,374	171,671	149,601
Trust Co.	$ millions	6,992	4,774	2,245	2,046	2,542	2,232
	Units	80,706	52,362	24,690	24,154	27,633	24,729
Life Ins. Co.	$ millions	3,742	1,082	820	819	586	496
	Units	71,203	19,423	14,965	13,340	10,475	8,948
Others	$ millions	8,939	4,401	2,257	2,009	2,303	2,098
	Units	119,511	59,416	33,006	32,826	31,744	27,672

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1997*

NHA and Conventional Approvals



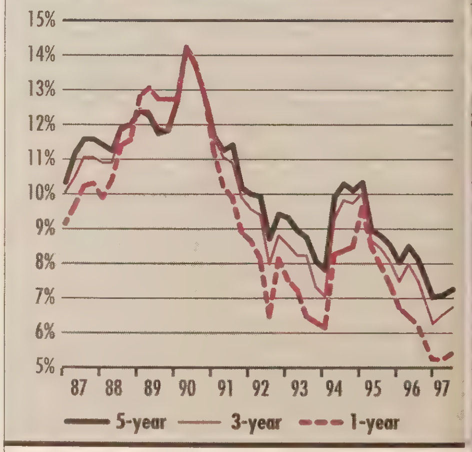
Source: CMHC. *CMHC – MAC 199*

Mortgage Rates (%) (Average of period)

	1995	1996	96Q2	96Q3	96Q4	97Q1	97Q2
1-Year Mortgage Rate	8.38	6.19	6.50	6.25	5.25	5.15	5.38
3-Year Mortgage Rate	8.81	7.33	8.00	7.59	6.25	6.43	6.75
5-Year Mortgage Rate	9.16	7.92	8.50	8.13	7.03	7.18	7.33

Sources: Bank of Canada; CMHC. *CMHC – MAC 1997*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1997*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506 or at amanouch@cmhc.e-mail.com.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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TENTH ANNIVERSARY OF NHA MBS

LARGE VOLUMES MARK TENTH ANNIVERSARY OF NHA MBS

by Ali Manouchehri, Senior Economist-Capital Markets

NHA MBS markets continued to march forward in the second quarter of 1997, issuing 50 pools totaling $1.1 billion. New initiatives undertaken in this tenth anniversary year include the introduction of a new pool, Internet access, and measures to reduce issue costs.

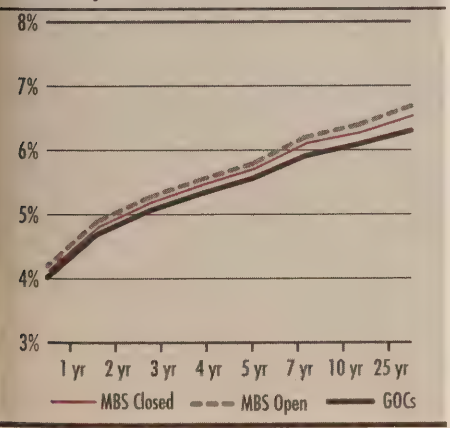
Internet access

CMHC now offers worldwide access to MBS information via the Internet. The MBS site offers monthly MBS reports, news about changes in the MBS Program, and standard terminology and calculations for NHA MBS. It also supplies information about changes in the MBS Centre and a contact list. The site can be reached at http://www.cmhc-schl.gc.ca/mbs-thlnh

Introduction of a new pool

Effective June 1, 1997, pool 970 was introduced. It is similar to pool 967 in that regular interest payments are retained by the issuer. At the same time, it gives the issuer flexibility to negotiate prepayment options with mortgagors during the period in which the loan is closed to prepayment while providing an indemnity to the MBS investor.

NHA Mortgage-Backed Securities Yield Analysis – *June 30, 1997*



Source: Nesbitt Burns. *CMHC – MAC 1997*

Guarantee fee volume discount

Recent market demand for NHA MBS securities products shows a sharp increase in interest for NHA Mortgage-Backed Securities. All market indicators point to a continued demand for this product during the second half of this year. As CMHC is committed to being proactive and client focused while ensuring the efficiency of the mortgage market, the Corporation has taken steps to further facilitate the growth of the Canadian secondary mortgage market.

In June 1997, CMHC announced that until the end of 1997, Approved Issuers will be eligible to receive a 50 per cent discount on the NHA-MBS Guarantee Fee for securitization of volumes of $2 billion or more of uninsured loans. This discount will be made available to all Approved Issuers who meet the required criteria.

New issues total $1,144 million in the second quarter of 1997

The second quarter of this year marked another healthy period of growth for the NHA MBS market: 50 new pools were issued, totaling $1.1 billion. This large issue followed an all-time record issue of $2.2 billion in the first quarter and set the stage for the second successive year of growth. This positive turnaround occurred mainly because Canada Trust was very active in the NHA-MBS Program again, issuing nearly 45 per cent of the quarter's volume.

Some two thirds of the pools issued in this quarter, totaling $855.7 million or 75 per cent of all issued amounts, were single residential pools. Issues of multiple residential pools reached $83.5 million in the quarter, 28 per cent higher than in the previous quarter. Similarly, issues of social housing pools more than doubled to reach $136.4 million. Mixed pools were up by one third as well, to $68.8 million. MBS-GOC spreads in the second quarter of 1997 changed little from the previous quarter. ■

CONVENTIONAL MORTGAGE APPROVALS TRENDING UPWARDS AGAIN

By Louis Trottier, Economist, Market Analysis Centre, CMHC

Since early 1995, conventional mortgage loan approvals[1] have been increasing again after a few slow years. The return of move-up buyers to housing markets is the most likely explanation for this resurgence in activity.

The rate of mortgage loan approvals usually runs opposite to mortgage rate trend changes. When rates are high, approvals are low, and approvals increase when rates decline. So when mortgage rates began to decline in February 1995, it was understandable that the number of loans took an upward turn. The reverse had occurred in early 1994 when mortgage rates started to increase. That pattern was to be expected, since ownership costs are determined to a large extent by mortgage interest charges.

However, a longer term look at both NHA and conventional mortgage loan approvals provides more information on underlying trends in the mortgage market. Both segments have shown an upward trend since the housing market trough in early 1995, unlike their direction during the eighties and the first half of this decade.

In 1982, conventional loan approvals began to outpace NHA loan approvals. The gap grew until early 1992. For the next three years, the decline of conventional mortgage approvals brought total loan approvals downward, although NHA loan approval activity remained steady between 1992 and the end of 1994.

What happened during that period?

The main factor was the influence of move-up buyers, who usually require conventional loans. They remained active on the market, taking advantage of easing mortgage rates and the equity buildup produced by rising home prices. For first-time buyers, however, who usually rely on NHA loans, affordability was a barrier because of rates that remained high and house prices that were increasing.

Starting in 1992, the move-up market shrank because of weakening house prices and the fragile economic and employment situation. At the same time, NHA business picked up as first-time buyers found a more affordable market (lower mortage rates and easing prices) plus programs that helped first time buyers (CMHC's First Home Loan Insurance and Revenue Canada's Home Buyers' Plan).

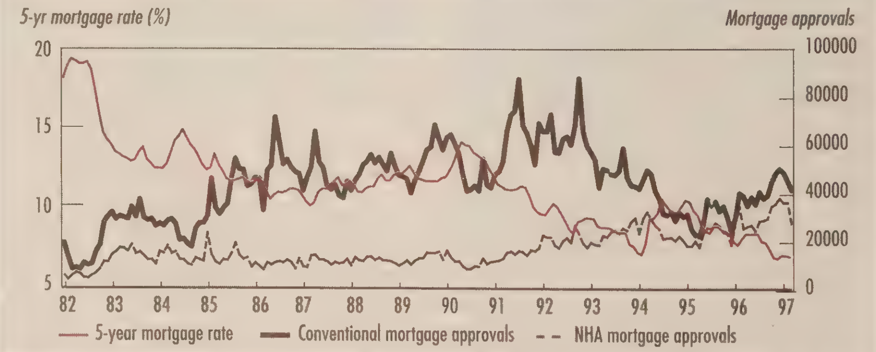
The current resurgence of conventional mortgages is due mainly to the return of move-up buyers to housing markets. Decreasing mortgage rates have helped housing markets recover by creating more favourable conditions for potential move-up buyers to sell their previous home. At the same time, lower mortgage rates have lowered the costs of buying enough to allow potential move-up buyers to venture into housing markets.

1997-98 outlook

With existing and new homes prices firming up, more home owners might get serious about buying a move-up home soon. In most markets, selling an existing home is much easier now than in recent years. In markets like Toronto and Calgary, the whole process is straightforward and lasts less than a few days, so that buying a house is significantly simpler. As both new and existing home prices are expected to increase at a moderate pace and mortgage rates to remain within favourable ranges in 1997 and 1998, both conventional and NHA mortgage loan activities should continue their upward trend this year and next. ■

(1) *Conventional mortgages refer to non-NHA mortgages.*

NHA and Conventional Mortgage Approvals: A 15-year Review



Source: CMHC

CMHC – MAC 1997

NHA Mortgage-Backed Securities Second Quarter Issues

April to June 1997

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-432	WESTMINSTER SAVINGS C.U.	4,511,946.39	5.750	2002-04-01	6.60	21.75
96-412-440	FIRST HERITAGE SAVINGS CR.UN.	10,586,965.96	5.875	2002-04-01	6.64	22.10
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-541	PEOPLES TRUST COMPANY	10,369,250.00	7.000	2012-04-01	7.50	24.99
96-500-525	PEOPLES TRUST COMPANY	2,306,044.72	5.750	2002-04-01	6.47	20.85
96-500-533	THE EQUITABLE TRUST COMPANY	15,326,350.00	6.375	2007-04-01	6.98	15.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-739	PEOPLES TRUST COMPANY	15,887,620.41	6.375	2007-04-01	7.32	21.22
96-600-747	PEOPLES TRUST COMPANY	5,213,581.20	5.875	2002-04-01	6.45	20.89
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-693	HONGKONG BANK OF CANADA	31,527,425.39	5.625	2002-03-01	6.55	21.23
96-701-701	HONGKONG BANK OF CANADA	21,689,283.25	5.500	2001-04-01	7.43	20.03
96-701-719	CIBC MTGS INC.(FIRSTLINE MTG)	2,368,217.79	6.500	2005-04-01	7.23	26.72
96-701-727	CIBC MTGS INC.(FIRSTLINE MTG)	2,888,921.80	6.625	2007-07-01	7.51	22.01
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-137	CANADA TRUSTCO MORTGAGE CO.	133,417,081.70	5.375	2002-03-01	6.65	21.07
97-000-145	CANADA TRUSTCO MORTGAGE CO.	46,457,187.70	6.500	2001-09-01	7.72	22.25
97-000-152	CANADA TRUSTCO MORTGAGE CO.	46,304,006.45	6.500	2001-03-01	7.98	20.93
97-000-160	CANADA TRUSTCO MORTGAGE CO.	45,743,000.15	7.250	2000-10-01	8.28	20.19
MONTH OF ISSUE: May 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-473	M.R.S. TRUST COMPANY	5,015,299.87	5.875	2002-05-01	6.57	22.77
96-412-465	WESTMINSTER SAVINGS C.U.	4,535,723.46	6.000	2002-05-01	6.92	21.03
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-558	THE EQUITABLE TRUST COMPANY	28,368,701.00	6.250	2003-12-01	6.85	26.58
96-500-566	THE EQUITABLE TRUST COMPANY	8,526,078.21	6.000	2002-05-01	6.85	24.40
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-754	MARITIME LIFE ASSURANCE CO.	25,646,555.99	5.625	2006-06-01	7.96	24.19
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-768	HONGKONG BANK OF CANADA	14,842,191.79	6.500	2001-05-01	7.38	20.03
96-701-776	HONGKONG BANK OF CANADA	8,902,151.65	5.125	2000-05-01	5.90	21.94
96-701-784	HONGKONG BANK OF CANADA	9,735,049.00	5.625	2002-04-01	6.46	21.70
96-701-792	HONGKONG BANK OF CANADA	17,746,793.84	5.625	2002-04-01	6.49	21.61
96-701-818	THE EQUITABLE TRUST COMPANY	11,367,994.88	5.625	2002-05-01	6.40	23.58
96-701-826	THE EQUITABLE TRUST COMPANY	2,527,693.14	6.625	2007-05-01	7.38	21.10
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-178	CANADA TRUSTCO MORTGAGE CO.	236,063,269.84	5.375	2002-04-01	6.43	20.51
SOCIAL HOUSING POOLS						
99-007-502	TORONTO-DOMINION BANK	6,753,401.36	5.875	2002-06-01	6.44	20.00
99-007-494	TORONTO-DOMINION BANK	44,059,813.52	6.125	2002-05-01	6.69	31.07

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	Amortization (yrs
MONTH OF ISSUE: June 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-507	MUTUAL TRUST COMPANY	13,500,478.56	5.625	2002-06-01	6.29	22.13
96-412-481	FIRST HERITAGE SAVINGS CR.UN.	6,304,564.85	5.875	2002-06-01	6.64	22.12
96-412-499	FIRST HERITAGE SAVINGS CR.UN.	3,996,727.16	5.125	2000-06-01	5.90	23.30
96-412-515	M.R.S. TRUST COMPANY	3,970,330.09	5.750	2002-06-01	6.69	22.79
96-412-523	NATIONAL BANK OF CANADA	23,231,009.38	5.500	2002-04-01	7.56	18.73
96-412-531	NATIONAL BANK OF CANADA	41,748,266.02	5.500	2002-05-01	7.27	19.92
96-412-549	NATIONAL BANK OF CANADA	21,207,665.89	5.500	2002-05-01	6.95	22.07
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-574	PAFCO INSURANCE COMPANY	3,895,947.64	6.000	2002-06-01	7.06	24.08
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-788	PEOPLES TRUST COMPANY	15,016,694.08	5.500	2002-06-01	6.93	22.44
96-600-796	PEOPLES TRUST COMPANY	2,222,348.27	6.750	2007-06-01	7.54	22.33
96-600-762	PEOPLES TRUST COMPANY	6,186,863.21	6.000	2002-06-01	6.73	24.38
96-600-770	PEOPLES TRUST COMPANY	13,374,950.00	5.000	1999-06-01	5.51	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-701-875	CIBC MTGS INC.(FIRSTLINE MTG)	5,439,384.31	5.875	2004-11-01	7.27	24.19
96-701-883	CIBC MTGS INC.(FIRSTLINE MTG)	7,599,833.28	6.125	2007-08-01	7.55	22.13
96-701-834	HONGKONG BANK OF CANADA	45,148,409.66	5.625	2002-05-01	6.48	21.45
96-701-842	HONGKONG BANK OF CANADA	5,969,170.85	5.350	2001-06-01	6.30	21.54
96-701-859	HONGKONG BANK OF CANADA	18,191,389.31	5.625	2002-05-01	6.58	21.40
96-701-867	CIBC MTGS INC.(FIRSTLINE MTG)	3,154,813.61	5.750	2004-08-01	7.10	23.03
SOCIAL HOUSING POOLS						
99-007-536	SUN LIFE ASSURANCE CO. CANADA	37,992,547.96	6.625	2011-08-01	12.10	29.17
99-007-510	TORONTO-DOMINION BANK	31,924,873.18	5.625	2002-06-01	6.21	30.01
99-007-528	SUN LIFE ASSURANCE CO. CANADA	15,633,223.77	6.250	2008-04-01	11.44	25.77

CAN MORTGAGE RATE-BOND YIELD SPREADS PREDICT MORTGAGE RATE CHANGES?

by Gilles Proulx, Director, Market Analysis Centre, CMHC, and Ali Manouchehri, Senior Economist-Capital Markets, CMHC

The competitive lending environment of the 1990s has made lenders more sensitive to the size and length of spreads between mortgage and bond rates[1]. A study of daily GOC and mortgage rates in 1996 and 1997 shows that lenders are quick to pass on to borrowers any decline in mortgage funding costs.

Government of Canada Bonds (GOCs) and Treasury Bills (TBs) are often considered benchmarks for setting mortgage rates on the grounds that any long-lasting increase in GOC/TB yields will eventually lead to higher mortgage funding costs and thus mortgage rates. Conversely, any steady decline in GOC/TB yields will reduce mortgage funding costs and induce lenders to cut mortgage rates. This relationship is supported by econometric models that show a high correlation between monthly mortgage rates and corresponding GOC/TB yields. However, in today's financial environment, mortgage rate changes often take place with a response time of days rather than months.

Focus on recent daily spreads

Daily mortgage rates and GOC/TB yields for one-, three-, and five-year terms were examined for the period January 1996 to July 1997 to determine how quickly mortgage rates responded to changes in mortgage-GOC/TB spreads. This historical period was selected for three reasons: it is recent, it was a period of frequent mortgage changes, and daily data is available for mortgage and GOC/TB rates. The data covered 18 mortgage rate changes, including 14 mortgage rate cuts and four increases.

Although the average spread between mortgage rates and GOC/TB yield rates was slightly different for different terms, the pattern of reaction of mortgage rates to spread size was similar for all terms.

Asymmetric reaction

Mortgage rates responded to spread size in an asymmetric fashion, depending on whether rates were to be raised or lowered. Mortgage-GOC spreads deviated from the norm by larger amounts prior to mortgage rate hikes, whereas smaller deviations from the average were required to encourage lenders to reduce mortgage rates.

Furthermore, when benchmark yields (GOC/TB) rise and spreads get narrower, the time required for lenders to increase mortgage rates is longer than in the opposite situation when yields drop and a mortgage rates cut follows.

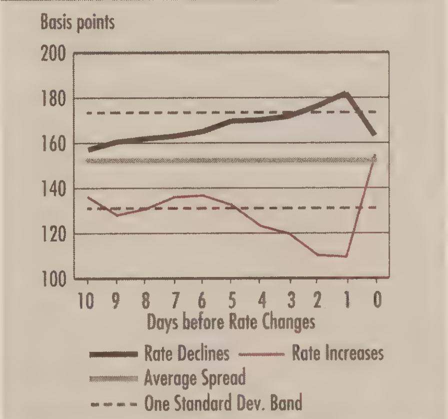
This is clearly shown in the graph below, which portrays daily five-year mortgage rate-GOC spreads over ten working days preceding mortgage rate changes.

The solid line in the middle shows the average spread between January 1996 and July 1997. The two dotted lines show one standard deviation above and below the average spread. (Standard deviation is a measure of dispersion showing how widely data are scattered around an average value.) The upper curve traces spreads prior to mortgage rate cuts and the lower curve traces spreads prior to mortgage rate hikes.

As the upper curve shows, mortgage rate cuts normally followed a period of seven successive days of above-average spreads, plus two days in which the spreads exceeded the norm by one standard deviation. Although spreads had to widen for a week before mortgage rates were cut, lenders lowered their rates when the spreads exceeded one standard deviation for only two days, reflecting intense competition among lenders.

Mortgage rate hikes followed a similar pattern, but the extent of deviation from the norm was substantially larger and more extended. The lower curve shows that before rate hikes, there were normally four days in which spreads fell one standard deviation below average.

Five-Year Mortgage Rate - GOC yield spreads before rate changes (1996-97)



Source: Bank of Canada and CMHC
1997 data covers up to July.
CMHC – MAC 1997

continued on page 9

(1) The term "mortgage rates" in this article refers to posted rates.

NHA MORTGAGE-BACKED SECURITIES

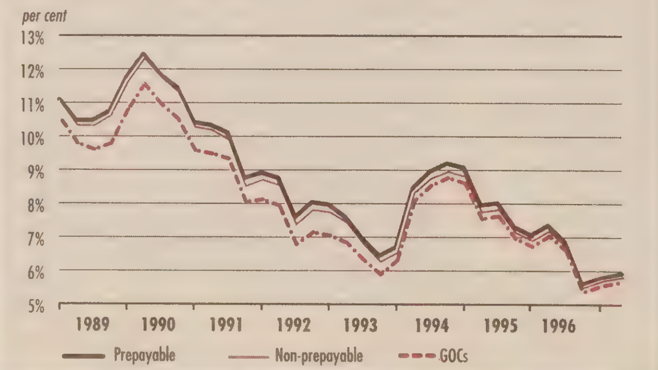
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1995	1996	96Q2	96Q3	96Q4	97Q1	97Q2
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	17,133.5	13,968.4	15,944.2	15,360.0	13,968.4	14,626.0	14,319.
	Units	1,498	1,370	1,431	1,401	1,370	1,355	1,33
Residential, single (with PIP)[1]	$million	7,669.5	5,607.1	6,902.4	6,577.5	5,607.1	4,729.1	4,123.
	Units	838	740	795	772	740	714	68
Residential, single (no PIP)	$million	714.6	997.7	800.7	926.2	997.7	2,787.6	1,232.
	Units	80	131	99	115	131	162	16
Residential, single (no PIP with indemnity) (2)	$million							2,172.
	Units							1
Residential, multiple	$million	1,159.0	1,385.5	1,301.0	1,336.3	1,385.5	1,444.5	1,480.
	Units	40	59	50	53	59	64	7
Social housing	$million	7,374.5	5,730.6	6,735.9	6,314.2	5,730.6	5,387.7	4,978.
	Units	510	404	458	432	404	372	34
Mixed	$million	215.8	247.5	204.2	205.8	247.5	277.0	332.
	Units	30	36	29	29	36	43	4
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,557.3	1,722.7	592.5	518.5	349.7	2,234.2	1,144.
	Units	162	154	36	46	46	57	5
Residential, single (with PIP)	$million	415.4	522.2	141.2	193.8	83.3	217.8	138.
	Units	71	37	8	12	10	11	1
Residential, single (no PIP)	$million	141.8	371.7	91.2	146.5	103.5	134.4	209.
	Units	27	53	12	18	16	18	1
Residential, single (no PIP with indemnity) (2)	$million						1,721.5	508.
	Units						13	[illegible]
Residential, multiple	$million	330.7	254.9	117.9	40.1	54.1	65.4	83.
	Units	18	21	7	4	6	5	[illegible]
Social housing	$million	656.9	446.4	220.8	118.4	22.5	42.7	136.
	Units	43	31	8	10	5	3	[illegible]
Mixed	$million	12.4	127.5	21.4	19.7	86.4	52.5	68.
	Units	3	12	1	2	9	7	[illegible]
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		8.09	6.73	7.36	6.86	5.61	5.86	5.9
MBS Prepayable (no PIP)		8.16	6.77	7.41	6.91	5.66	5.91	6.0
MBS Non-prepayable		7.89	6.59	7.20	6.73	5.51	5.76	5.8
MBS MMUF		7.97	6.64	7.26	6.77	5.55	5.81	5.8
Mortgage rates		9.16	7.92	8.50	8.13	7.03	7.18	7.3
GOCs		7.70	6.44	7.05	6.61	5.38	5.62	5.7
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)								
Prepayable (with PIP)		0.40	0.28	0.31	0.25	0.23	0.24	0.2
Prepayable (no PIP)		0.46	0.33	0.36	0.29	0.28	0.29	0.3
Non-prepayable		0.19	0.14	0.15	0.12	0.13	0.14	0.1
MMUF		0.28	0.20	0.21	0.15	0.18	0.19	0.1
Mortgage Rates		1.46	1.48	1.45	1.52	1.66	1.56	1.6

(1) PIP stands for Penalty Interest Payments   Not seasonally adjusted data.
(2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June.

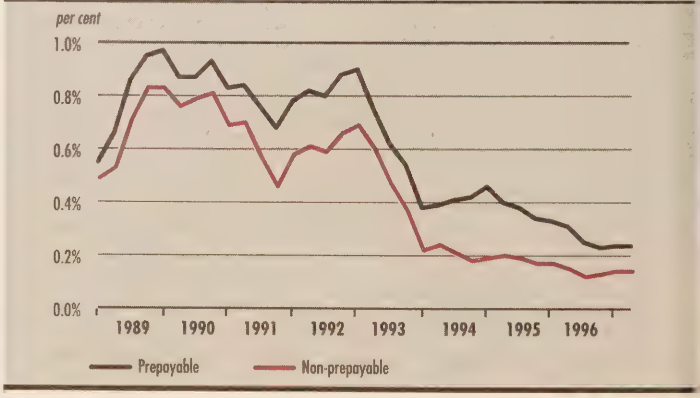
Sources: Nesbitt Burns; CMHC.   CMHC – MAC 199

Selected Interest Rates
(5-year maturity)



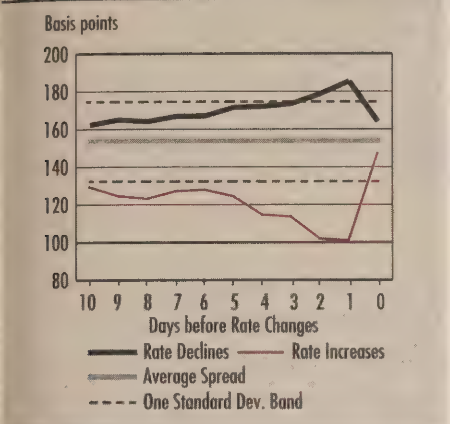
Source: Nesbitt Burns.   CMHC – MAC 1997

Spreads over GOCs
(5-year maturity)



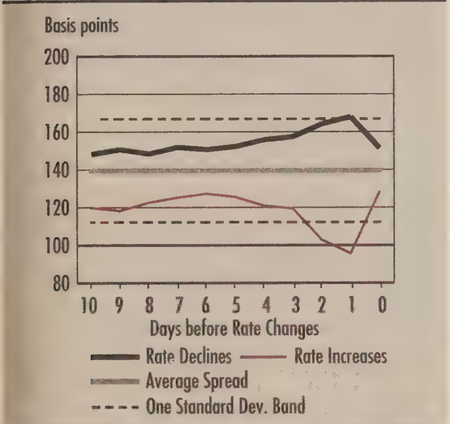
Source: Nesbitt Burns.   CMHC – MAC 199

Three-Year Mortgage Rate - GOC yield spreads before rate changes (1996-97)



Source: Bank of Canada and CMHC
1997 data covers up to July.
CMHC – MAC 1997

One-Year Mortgage Rate - GOC yield spreads before rate changes (1996-97)



Source: Bank of Canada and CMHC
1997 data covers up to July.
CMHC – MAC 1997

Quick to cut mortgage rates, slower to raise them

Why does it take longer for mortgage rates to go up when spreads shrink than to drop when spreads increase?

When spreads widen, the attraction of additional business is a powerful incentive for lenders to lower rates sooner than others. Competition among lenders helps to lower mortgage rates even if spreads are widening by only a small amount.

On the other hand, lenders are unwilling to raise mortgage rates hastily when spreads shrink because they want to avoid the negative perception that could cost them market share. Furthermore, it takes time to separate transitory daily bond market movements from long-lasting ones.

Spreads are similar for one-, three- and five-year terms before mortgage rate changes, except that one-year rates tend to respond more quickly to falling spreads.

Not much lead time as predictor

Mortgage rates generally change after a week of consistently above or below average spreads followed by two to four days of spreads in excess of one standard deviation above or below mean. Spreads are limited as a predictor of mortgage rate changes because those changes happen so quickly. The already short response time could shrink further as technological advances make it possible to reset mortgage rates more frequently and borrowers gain more knowledge of the mortgage market. ■

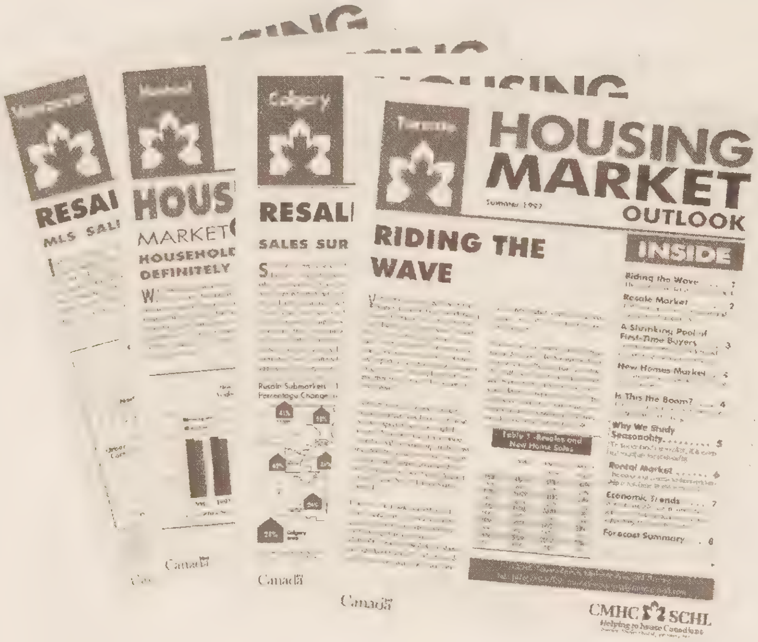
What is ahead?

Improvements in labour markets and consumer confidence, coupled with mortgage rates that are among the lowest in three decades, will continue to stimulate the economy and housing markets over the coming months and maintain a positive environment for mortgage lending. Low mortgage rates will translate into low home ownership costs, pushing up home sales, prices, and housing starts, though with some lag.

Stable mortgage market shares

Market shares of outstanding mortgage credit by lender type changed slightly from the previous quarter, to 58.4 per cent for banks, 10.2 per cent for trust companies, 14.0 per cent for credit unions, 6.2 per cent for life insurance companies, 2.1 per cent for pension funds, and 9.0 per cent for finance and loan companies. Ongoing mergers and acquisitions in the finance industry and intense competition in the mortgage market account for most of the change in mortgage market shares. ■

HOUSING MARKET OUTLOOK



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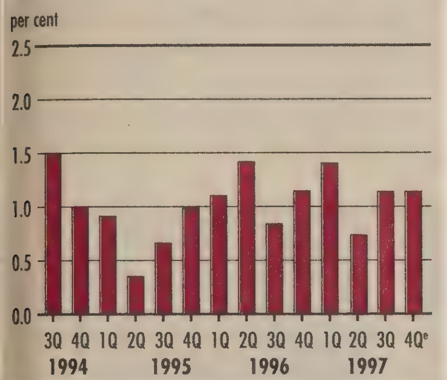
CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE FIRST QUARTER 1998

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC. CMHC–MAC 1998

Market Share of Residential Mortgage Credit* (%)

	4Q96	1Q97	2Q97	3Q97	4Q97^e
Banks	57.2	58.2	58.9	60.2	61.6
Trusts	11.7	11.0	10.3	8.5	7.1
Caisses & Co-op	14.1	14.1	14.1	14.1	14.1
Life	6.4	6.3	6.2	6.1	6.0
Pension Funds	2.2	2.2	2.2	2.2	2.2
Fin. & Loan	8.4	8.3	8.3	8.9	9.0

e: estimate
*Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC. CMHC–MAC 1998

INSIDE

MORTGAGE CREDIT

MORTGAGE CREDIT OUTSTANDING: SWELLS TO NEW HIGH IN 1997

by Michel Laurence, Senior Economist, Housing Analysis

Residential mortgage lending rose at a strong pace in the last quarter of 1997. The outstanding value of mortgage credit reached $372 billion, an increase of 1.2 per cent over the previous quarter's level. This lifted the annual average by $16 billion in 1997 over that in 1996, a 4.5 per cent increase.

The rate of expansion in residential mortgage credit was remarkably strong in the last quarter and reflected developments in the new and resale housing market, house prices, and the cost of financing.

Greater number of newly occupied units lifted mortgage financing

Mortgage lending activity associated with new homes was up in the fourth quarter. The seasonally adjusted number of newly occupied homes in urban areas rose 5.6 per cent, to 111,500 units from 105,600. At the same time, new home prices rose 0.3 per cent. While conversion activity jumped 5.8 per cent, it was not much of a factor, as converted residential units accounted for only 3 per cent of all new homes.

Gains in renovation lent a hand

Credit growth also profited from a growing renovation market. Spending on large residential alterations and improvements rose 2.3 per cent in the last quarter of 1997. Repair and renovation activity, partly financed through mortgages, continues to hold significant long-term potential.

Mortgage rates remain affordable

Demand for credit benefitted slightly from marginally lower long-term mortgage rates and slightly higher short-term rates. Five-year rates fell from 6.95 per cent on average in the third quarter to 6.82 per cent in the fourth quarter, while one-year rates rose from 5.65 per cent to 5.98 per cent.

continued on page 10

MORTGAGE BROKERS IN FOCUS

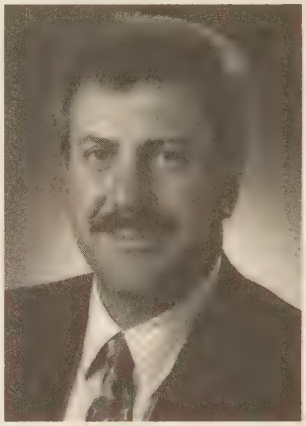
In February, Mortgage Market Trends spoke with four leading mortgage brokers on the state of their industry. All are members of the Canadian Institute of Mortgage Brokers and Lenders (CIMBL)-the national organization of the mortgage origination industry. In this roundtable, they describe how the mortgage brokerage business has grown across Canada and discuss the outlook for the future.

Participants are Michael Ellenzweig, Chairman of CIMBL and President, Anubis Investments Ltd. of Whitby, Ontario; Pierre Fournier, member of the CIMBL Board of Directors and President, Multi-Prêts Hypothèques of Montreal; John Ribalkin, member of the CIMBL Board of Directors and President, Nova Financial Services of North Vancouver; and Art Trojan, Founding Chairman of CIMBL and Managing Partner, Norlite Financial Services, Mississauga.

Michael Ellenzweig

Pierre Fournier

John Ribalkin



Art Trojan

MMT: Has the mortgage brokerage industry in Canada changed in the last ten years? How has it evolved?

Michael Ellenzweig: The first Mortgage Brokers Act in Ontario came into being in 1960, so we're a fairly young industry. Those people who were in the business in the 1960s and 1970s were doing mostly second mortgages because home owners stayed in their houses longer. They had 25-year mortgages, so when a house got sold, the purchasers assumed the existing mortgage and went to a mortgage broker for a second mortgage.

In addition, the educational requirements to enter the profession have become more stringent. Since 1993, it requires 14 courses to become a mortgage broker. Before that it was one course. You also need a university degree, a college diploma or five years' related work experience to get into the program.

Art Trojan: I think the industry has evolved greatly from what one might call a backroom boiler-shop operation. It used to be for hard-to-place second mortgages, high-risk mortgages or syndications. Today, we're seeing more mainstream operations-highly educated consumers looking for ease in service in getting their mortgage, an education and the best deal in the marketplace.

Pierre Fournier: In Quebec, the mortgage brokerage industry has existed for about 15 years. Now, we're going more to the mainstrea[m] business as well. We still have the higher risk business because it's our speciality, but we're being used more by financial institutions to source business, especially by those that have a small number of branches or are not visited by the public.

John Ribalkin: On the west coast, in the 1960s and 1970s, brokers we[re] working on second mortgages and private financing. It wasn't until about 1986 that finders' fees were opened by the TD Bank. Now that we're being paid by multiple

lenders, we're becoming the first choice for consumers. We were their second choice for the last 20 years.

But the biggest change over the last ten years has been the electronics. A lot of people thought mortgage brokers would be eliminated because people would have direct access to lending institutions. In fact, what electronics have given some people is a great deal of confusion. They don't know how to sort out the right products, and mortgage brokers are becoming the professionals who are able to streamline these clients to the lending institution of their choice.

MMT: How large is the industry?

Michael Ellenzweig: I have estimated the size of the industry at about $10 billion out of the total $72 billion residential mortgage market last year, and there's another $10 billion in other business-land, commercial, syndication, pension funds, private placement, and so on. There are some 2,900 registered brokers and agents in the four markets of Ontario, B.C., Alberta and Quebec, and another 100 in the other provinces.

Pierre Fournier: In Quebec, the mortgage brokerage industry does about $1 billion a year maximum. Of that, approximately $750 million comes from the real estate business and the rest is renewals, refinancings, and the like.

John Ribalkin: In B.C. our industry is in the neighbourhood of two-and-a-half to three-and-a-half billion dollars on residential mortgages.

MMT: What other areas of the industry are mortgage brokers involved in?

John Ribalkin: We often assemble people for development projects, called syndicated mortgages.

Pierre Fournier: In Quebec the business is about 90 per cent real estate business and construction and, to a lesser extent, life insurance agents and the people other than lenders who distribute financial products.

WHAT THE LENDERS SAY

"Mortgage brokers have several advantages for us. They supply us with a cost effective and wide scope distribution network. They also provide us with good quality mortgages."
Myrna Bentley, President and CEO, Cooperative Trust Company of Canada

Ric McGratten, President and CEO, MCAP Mortgage Corporation, says MCAP relies on mortgage brokers because they offer variable costs, let them choose their desired volume of business and add value through the human touch.

Art Trojan: Probably 92 to 93 percent of the business we do originates from real estate offices. We also do some small land financing.

MMT: Who do mortgage brokers serve?

John Ribalkin: We primarily serve the real estate community. But as the industry evolves, we're serving the public more and more. Only 25 percent of my personal business is real estate originated.

Pierre Fournier: We don't have enough public profile to deal directly with the public as, for example, an insurance broker would. We primarily serve the real estate business.

Art Trojan: Any consumer looking for mortgage money on a real estate-related transaction.

Michael Ellenzweig: Mortgage brokers right now have anywhere from 12 to 15 per cent of the marketplace. In the United States, approximately 60 to 70 per cent of all mortgage loan origination is done through mortgage broker channels. That's the future.

MMT: What are the benefits to the public of dealing with a mortgage broker?

Michael Ellenzweig: People today are more educated and more sophisticated, and they value their time more. By going to a mortgage broker, they are going to get the best deal in the marketplace because all of the lending institutions' products are available to the broker. So you can do the shopping or you can have the mortgage broker do the shopping.

Art Trojan: A house is probably one of the largest single purchase decisions a person is going to make, and how you finance it is going to affect you for anywhere from 18 to 23 years. When you're dealing with mortgage brokers, all they do is arrange financing transactions. Mortgage brokers do one thing and hopefully they do it very well.

continued on page 11

Mortgage Credit Outstanding[1] (in millions of dollars)

	1996	1997	96Q4	97Q1	97Q2	97Q3	97Q4 e
TOTAL	350,238	366,120	355,990	360,834	363,425	367,937	372,284
% change	4.1	4.5	1.2	1.4	0.7	1.2	1.2
Banks	198,240	218,747	203,791	209,877	214,118	221,558	229,433
Trust Co.	42,111	33,739	41,594	39,731	37,431	31,344	26,449
Caisses & CO-OP	49,322	51,617	50,170	50,777	51,334	51,961	52,395
Life Ins. Co.	22,721	22,436	22,721	22,697	22,501	22,287	22,257
Pension Funds	7,773	8,039	7,843	7,964	8,045	8,057	8,090
Fin. & Loan	30,072	31,543	29,871	29,787	29,995	33,730	33,660

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

NHA and Conventional Loans Approved[1]

		1996	1997(2)	96Q4	97Q1	97Q2	97Q3
TOTAL	$ millions	71,264	58,810	20,922	19,220	21,602	17,988
	Units	852,363	655,936	241,523	210,950	242,099	202,887
NHA	$ millions	29,870	24,766	8,427	8,381	9,086	7,299
	Units	193,135	279,303	99,470	93,665	104,708	80,930
Conventional	$ millions	41,394	34,044	12,495	10,839	12,516	10,689
	Units	490,470	376,633	142,053	117,285	137,391	121,957
By Type of Lender							
Banks	$ millions	51,328	44,447	15,491	14,394	16,268	13,785
	Units	581,814	469,957	171,671	149,601	171,129	149,227
Trust Co.	$ millions	8,563	6,496	2,542	2,232	2,435	1,829
	Units	96,157	72,064	27,633	24,729	26,814	20,521
Life Ins. Co.	$ millions	2,907	1,628	586	496	673	459
	Units	49,517	30,300	10,475	8,948	13,490	7,862
Others	$ millions	8,466	6,239	2,303	2,098	2,226	1,915
	Units	124,875	83.615	31,744	27,672	30,666	25,277

(1) Not Seasonally Adjusted (2) Year-to-date

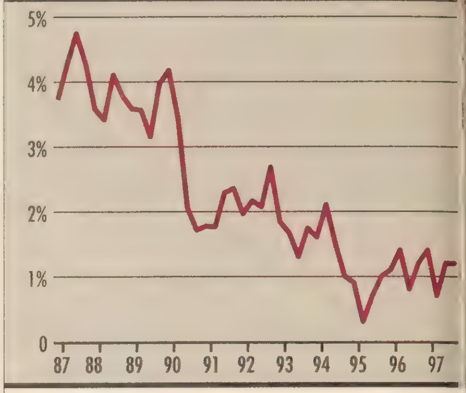
Source: CMHC. *CMHC – MAC 1998*

Mortgage Rates (%) (Average of period)

	1996	1997	96Q4	97Q1	97Q2	97Q3	97Q4
1-Year Mortgage Rate	6.19	5.54	5.25	5.15	5.38	5.65	5.98
3-Year Mortgage Rate	7.33	6.56	6.25	6.43	6.75	6.50	6.57
5-Year Mortgage Rate	7.92	7.07	7.03	7.18	7.33	6.95	6.82

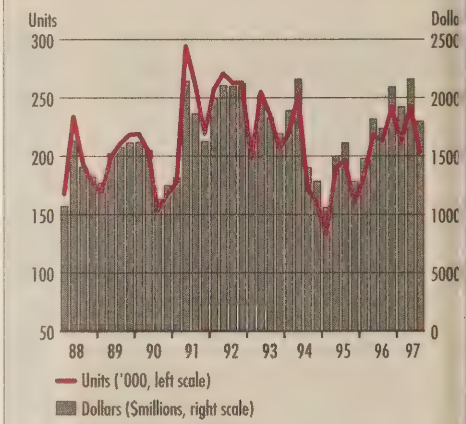
Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

Quarterly Residential Mortgage Credit Growth



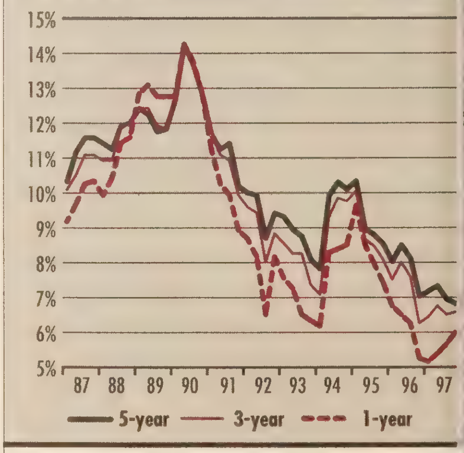
Sources: Bank of Canada; CMHC. *CMHC – MAC 19*

NHA and Conventional Approvals



Source: CMHC. *CMHC – MAC 19*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 19*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506.
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NHA MORTGAGE-BACKED SECURITIES

NHA MBS PERFORMANCE

by Ali Manouchehri, Senior Economist - Capital Markets

The MBS market celebrated its tenth anniversary with an all time record issue of 238 pools totaling $6,949 million, more than three times the previous year.

1997 IN REVIEW

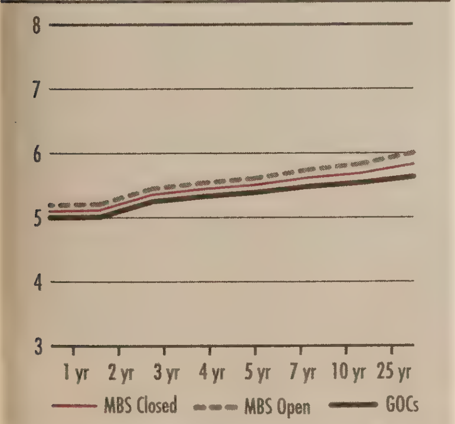
Last year marked a sharp turn in NHA MBS activity. In 1997, an all-time record of $6,949 million in new issues was garnered in 238 pools, for a dollar amount six times higher than in the previous year.

This growth can be ascribed to several factors, including a dwindling supply of term deposits as a source of funding mortgages, portfolio management considerations by several financial institutions, increasing reliance on longer-term mortgages, introduction of a new pool type, and efforts to reduce NHA MBS issue costs.

Over two thirds of the pools issued in 1997, totaling $5,789.6 million, or 83 per cent of all issued amounts, were single residential pools. Issues of multiple residential pools in 1997 reached $329.2 million, which was 30 per cent higher than last year. Similarly, issues of social housing pools rose to $568.3 million, up 27 per cent from the previous year. Mixed pools, totaling $262.2 million, more than doubled from a year ago.

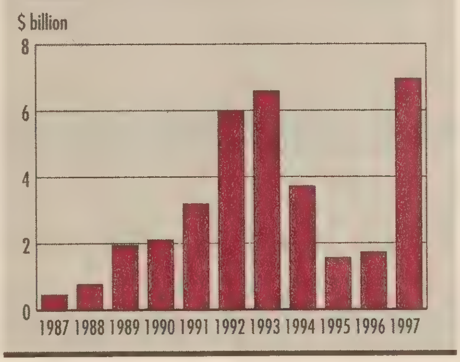
MBS-Government of Canada bond (GOC) spreads for all pools reflected little change from the previous year, inching down by one basis point.

NHA Mortgage-Backed Securities Yield Analysis – *June 30, 1997*



Source: Nesbitt Burns. CMHC – MAC 1998

MBS new issues



Source: CMHC CMHC – MAC 1998

FOURTH QUARTER REPORT

Over $1,200 million in new issues

A total of 70 new NHA MBS pools, amounting to $1,268.7 million, were issued in the last quarter of 1997. Although the amount fell short of the $2,300 million issued in the previous quarter, it was more than three times the amount issued in the last quarter of 1996. Nearly 70 per cent of the pools issued, totaling $899 million, were single residential pools.

Issues of multiple pools reached $151.5 million, almost triple the amount for the same period in 1996. At $73.7 million, social housing pools were almost six times more than in the comparable period of the previous year. New issues of mixed pools, at $73.7 million, were up 10 per cent from the previous quarter but still 15 per cent short of the $86.4 million issued in the last quarter of 1996.

The MBS-GOC spread for prepayable pools declined by one basis point in the final three months of 1997. The spread remained unchanged for non-prepayable pools and rose by two basis points for MMUF pools. ■

1997 MBS highlights

New issues:

238 pools for $6,949 million

163 single family pools amounting to $5,789.6 million, more than six times last year's issue

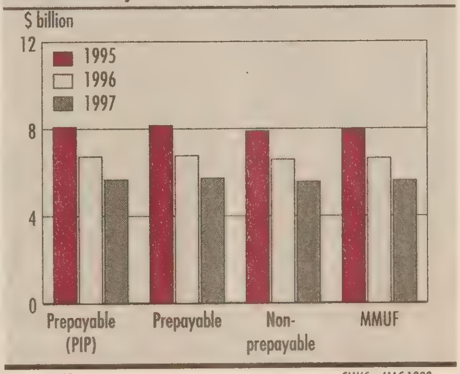
Issues of social housing and multiple residential pools were also up by almost one third while mixed pools more than doubled from the previous year

MBS-GOC five-year spreads: down one basis point for all pools from last year

Internet access

Introduction of pool 970

MBS annual yields



Source: CMHC CMHC – MAC 1998

NHA MORTGAGE-BACKED SECURITIES

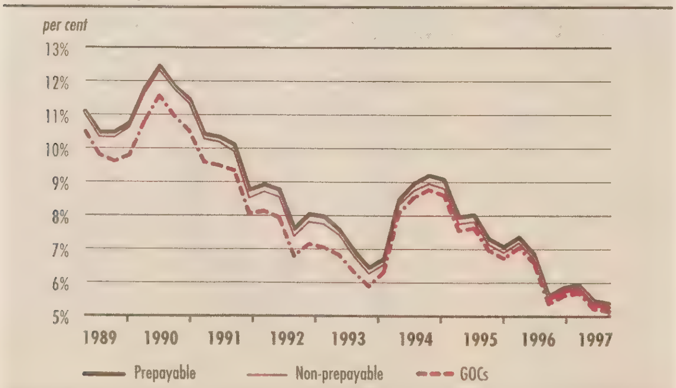
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1996	1997	96Q4	97Q1	97Q2	97Q3	97Q4
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	13,968.4	14,787.4	13,968.4	12,925.8	14,235.1	14,870.5	14,787.
	Units	1,370	1,251	1,370	1,342	1,329	1,286	1,25
Residential, single (with PIP)[1]	$million	5,607.1	2,961.7	5,607.1	4,729.1	4,038.6	3,403.0	2,961.
	Units	740	581	740	714	681	632	58
Residential, single (no PIP)	$million	997.7	1,383.6	997.7	1,087.4	1,232.7	1,362.5	1,383.
	Units	131	191	131	149	165	178	19
Residential, single (no PIP with indemnity) (2)	$million		4,371.0			2,172.0	3,829.0	4,371.
	Units		60			18	40	6
Residential, multiple	$million	1,385.5	1,580.3	1,385.5	1,444.5	1,480.1	1,446.9	1,580.
	Units	59	87	59	64	71	75	8
Social housing	$million	5,730.6	4,048.6	5,730.6	5,387.7	4,978.6	4,447.5	4,048.
	Units	404	279	404	372	347	311	27
Mixed	$million	247.5	442.5	247.5	277.0	332.7	381.4	442.
	Units	36	53	36	43	47	50	5
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,722.7	6,949.0	349.7	2,234.2	1,144.4	2,301.7	1,268.
	Units	154	238	46	57	50	61	7
Residential, single (with PIP)	$million	522.2	532.8	83.3	217.8	52.4	126.4	136.
	Units	37	43	10	11	8	11	1
Residential, single (no PIP)	$million	371.7	679.8	103.5	134.4	209.1	203.5	132.
	Units	53	60	16	18	16	13	1
Residential, single (no PIP with indemnity) (2)	$million		4,576.7		1,721.5	594.2	1,631.2	629.
	Units		60		13	8	19	2
Residential, multiple	$million	254.9	329.2	54.1	65.4	83.5	28.6	151.
	Units	21	29	6	5	7	5	1
Social housing	$million	446.4	568.3	22.5	42.7	136.4	244.7	144.
	Units	31	21	5	3	5	8	
Mixed	$million	127.5	262.2	86.4	52.5	68.8	67.2	73.
	Units	12	25	9	7	6	5	
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		6.73	5.66	5.61	5.86	5.94	5.47	5.3
MBS Prepayable (no PIP)		6.77	5.73	5.66	5.91	6.02	5.53	5.4
MBS Non-prepayable		6.59	5.56	5.51	5.76	5.84	5.36	5.2
MBS MMUF		6.64	5.62	5.55	5.81	5.88	5.42	5.3
Mortgage rates		7.92	7.07	7.03	7.18	7.33	6.95	6.8
GOCs		6.44	5.43	5.38	5.62	5.70	5.24	5.1
SPREADS OVER GOC (5-YEAR CONSTANT MATURITY, %)								
Prepayable (with PIP)		0.28	0.23	0.23	0.24	0.24	0.23	0.2
Prepayable (no PIP)		0.33	0.30	0.28	0.29	0.32	0.30	0.2
Non-prepayable		0.14	0.13	0.13	0.14	0.14	0.12	0.1
MMUF		0.20	0.19	0.18	0.19	0.18	0.18	0.2
Mortgage Rates		1.48	1.64	1.66	1.56	1.63	1.71	1.6

(1) PIP stands for Penalty Interest Payments Not seasonally adjusted data.
(2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.

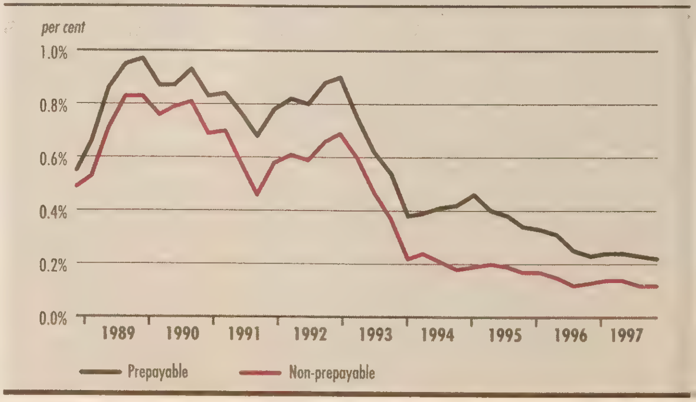
Sources: Nesbitt Burns; CMHC. CMHC – MAC 19

Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1998

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 19

NHA Mortgage-Backed Securities Fourth Quarter Issues
October to December 1997

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-747	FIRST HERITAGE SAVINGS CR.UN.	6,253,276.77	5.375	2002-10-01	6.60	22.37
96-412-754	M.R.S. TRUST COMPANY	4,536,210.11	5.375	2002-10-01	6.47	23.49
96-412-762	PAFCO INSURANCE COMPANY	7,692,713.62	5.375	2002-10-01	6.87	24.26
96-412-770	WESTMINSTER SAVINGS C.U.	3,177,617.83	5.125	2002-10-01	6.82	22.13
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-632	THE EQUITABLE TRUST COMPANY	11,876,650.00	6.500	2022-10-01	7.21	25.00
96-500-640	THE EQUITABLE TRUST COMPANY	8,653,992.13	5.250	2002-10-01	5.99	22.14
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-846	PEOPLES TRUST COMPANY	9,903,415.03	5.250	2002-10-01	6.18	24.63
96-600-853	PEOPLES TRUST COMPANY	2,762,202.50	5.750	2004-10-01	6.62	30.00
96-600-887	PEOPLES TRUST COMPANY	14,946,000.00	6.000	2017-10-01	6.86	20.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-048	HONGKONG BANK OF CANADA	15,541,524.89	5.500	2002-09-01	6.47	21.23
96-702-055	HONGKONG BANK OF CANADA	7,852,335.29	5.750	2001-10-01	7.46	20.09
96-702-063	HONGKONG BANK OF CANADA	15,162,902.73	5.500	2002-09-01	6.47	22.42
96-702-105	FORTIS TRUST	2,035,322.61	5.000	2001-01-01	8.71	22.04
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-400	CANADA TRUSTCO MORTGAGE CO.	92,232,373.09	5.500	2002-09-01	6.71	21.25
97-000-418	THE EQUITABLE TRUST COMPANY	11,938,571.34	5.125	2002-10-01	6.32	23.22
SOCIAL HOUSING POOLS						
99-007-627	TORONTO-DOMINION BANK	2,188,675.52	5.000	2002-09-01	5.53	25.00
99-007-643	BANK OF NOVA SCOTIA	42,846,871.28	4.375	2000-10-01	5.30	29.30
MONTH OF ISSUE: November 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-788	PAFCO INSURANCE COMPANY	8,923,206.84	5.200	2002-11-01	6.90	24.22
96-412-796	M.R.S. TRUST COMPANY	3,018,909.46	5.125	2002-11-01	6.40	22.25
96-412-804	MUTUAL LIFE ASSURANCE CO.-CAN.	10,085,480.98	5.250	2002-11-01	6.67	21.83
96-412-812	VANC. CITY SVGS. CREDIT UNION	29,146,048.00	5.750	2002-09-01	6.61	22.18
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-657	THE EQUITABLE TRUST COMPANY	6,017,100.00	6.000	2022-11-01	7.14	25.00
96-500-665	THE EQUITABLE TRUST COMPANY	5,074,628.80	5.750	2007-11-01	6.72	24.40
96-500-673	THE EQUITABLE TRUST COMPANY	24,016,605.04	5.000	2004-11-01	5.98	21.47
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-879	PEOPLES TRUST COMPANY	3,161,945.40	5.625	2007-11-01	6.37	24.35
96-600-895	PAFCO INSURANCE COMPANY	2,064,625.00	5.875	2007-11-01	7.03	25.00
96-600-903	SUN LIFE ASSURANCE CO. CANADA	60,181,752.00	5.125	2002-07-01	6.14	23.62
96-600-911	PEOPLES TRUST COMPANY	21,847,799.78	4.875	2002-11-01	5.91	22.44
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-071	HONGKONG BANK OF CANADA	13,628,019.75	5.250	2002-10-01	6.37	21.94
96-702-089	HONGKONG BANK OF CANADA	10,139,960.00	5.500	2002-10-01	6.40	19.68
96-702-097	HONGKONG BANK OF CANADA	10,201,028.81	5.000	2000-11-01	5.99	22.19
96-702-113	CIBC MTGS INC.(FIRSTLINE MTG)	6,251,703.41	5.375	2004-12-01	7.02	21.79
96-702-121	CIBC MTGS INC.(FIRSTLINE MTG)	10,551,032.79	5.625	2008-01-01	7.19	20.78
97-000-558	THE EQUITABLE TRUST COMPANY	7,729,189.18	5.625	2007-11-01	6.89	21.40
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-236	CANADA TRUSTCO MORTGAGE CO.	37,819,882.23	5.450	2002-07-01	6.55	20.78
97-000-244	CANADA TRUSTCO MORTGAGE CO.	27,290,889.75	5.500	2002-01-01	6.89	19.77
97-000-251	CANADA TRUSTCO MORTGAGE CO.	104,316,471.54	6.500	2001-07-01	7.47	19.74
97-000-269	CANADA TRUSTCO MORTGAGE CO.	349,804,448.27	5.400	2002-08-01	6.54	21.30
97-000-277	CANADA TRUSTCO MORTGAGE CO.	35,336,874.79	5.400	2002-02-01	6.92	12.20
97-000-285	THE EQUITABLE TRUST COMPANY	16,053,324.94	5.750	2002-08-01	6.46	22.96
97-000-293	THE EQUITABLE TRUST COMPANY	2,031,602.63	6.000	2007-08-01	7.50	21.96
SOCIAL HOUSING POOLS						
99-007-635	TORONTO-DOMINION BANK	26,294,083.53	4.750	2002-11-01	5.35	30.00
99-007-650	TORONTO-DOMINION BANK	3,968,472.23	5.000	2002-12-01	5.52	19.98

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: December 1997						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-820	PAFCO INSURANCE COMPANY	2,532,171.79	5.125	2000-12-01	6.53	24.13
96-412-838	PAFCO INSURANCE COMPANY	7,322,825.40	5.375	2002-12-01	6.71	23.79
96-412-846	VANC. CITY SVGS. CREDIT UNION	15,447,094.11	5.000	2000-10-01	6.07	21.95
96-412-853	VANC. CITY SVGS. CREDIT UNION	34,673,705.76	5.600	2002-10-01	6.54	21.86
96-412-861	M.R.S. TRUST COMPANY	3,326,416.67	5.375	2002-12-01	6.36	23.04
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-681	MARITIME LIFE ASSURANCE CO.	8,592,888.59	5.500	2007-09-01	7.25	19.75
96-500-699	MARITIME LIFE ASSURANCE CO.	9,493,682.42	5.250	2006-09-01	8.58	19.61
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-929	MARITIME LIFE ASSURANCE CO.	9,125,355.54	5.250	2005-12-01	9.16	23.59
96-600-937	MARITIME LIFE ASSURANCE CO.	2,380,013.89	5.000	2003-12-01	8.23	11.00
96-600-945	MARITIME LIFE ASSURANCE CO.	5,833,386.93	5.000	2007-12-01	5.94	21.42
96-600-952	PEOPLES TRUST COMPANY	14,602,386.33	5.000	2002-12-01	5.76	24.29
96-600-960	PEOPLES TRUST COMPANY	4,875,964.19	5.625	2007-12-01	6.37	25.37
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-139	HONGKONG BANK OF CANADA	10,124,374.39	5.250	2001-12-01	6.61	19.69
96-702-147	HONGKONG BANK OF CANADA	13,003,942.88	5.250	2002-11-01	6.34	22.42
96-702-154	HONGKONG BANK OF CANADA	13,289,091.12	5.000	2002-11-01	6.17	21.72
96-702-162	CIBC MTGS INC.(FIRSTLINE MTG)	4,978,599.59	5.750	2007-12-01	6.88	20.31
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-426	CANADA TRUSTCO MORTGAGE CO.	45,717,259.05	5.125	2002-11-01	6.58	12.16
97-000-434	CANADA TRUSTCO MORTGAGE CO.	168,220,258.88	5.125	2002-11-01	6.57	21.03
97-000-442	CANADA TRUSTCO MORTGAGE CO.	29,674,072.50	5.500	2001-07-01	6.42	21.00
97-000-459	CANADA TRUSTCO MORTGAGE CO.	31,809,941.40	4.375	2000-12-01	5.64	21.93
97-000-467	CANADA TRUSTCO MORTGAGE CO.	37,741,903.15	5.500	2000-12-01	6.29	21.42
97-000-475	CANADA TRUSTCO MORTGAGE CO.	4,680,191.51	5.500	2000-12-01	6.33	12.07
97-000-483	CANADA TRUSTCO MORTGAGE CO.	8,400,364.80	5.500	2001-05-01	6.46	12.04
97-000-491	CANADA TRUSTCO MORTGAGE CO.	20,063,879.46	5.500	2001-02-01	6.63	20.34
97-000-509	CANADA TRUSTCO MORTGAGE CO.	13,873,832.07	5.500	2001-12-01	6.65	19.94
97-000-517	CANADA TRUSTCO MORTGAGE CO.	15,619,125.44	3.500	2001-05-01	5.79	20.66
97-000-525	CANADA TRUSTCO MORTGAGE CO.	25,691,053.95	5.750	2001-04-01	7.54	11.70
97-000-533	CANADA TRUSTCO MORTGAGE CO.	14,141,923.93	6.500	2001-09-01	7.67	11.85
97-000-541	CANADA TRUSTCO MORTGAGE CO.	20,812,002.62	5.500	2002-03-01	6.78	11.12
97-000-566	CANADA TRUSTCO MORTGAGE CO.	15,978,846.79	5.875	2001-10-01	7.64	19.70
97-000-574	CANADA TRUSTCO MORTGAGE CO.	15,920,246.19	5.750	2001-05-01	7.43	19.43
97-000-582	CANADA TRUSTCO MORTGAGE CO.	36,969,309.94	5.500	2002-04-01	6.61	20.91
97-000-590	THE EQUITABLE TRUST COMPANY	12,634,212.85	5.350	2002-12-01	6.06	23.30
SOCIAL HOUSING POOLS						
99-007-668	TORONTO-DOMINION BANK	69,229,521.02	5.000	2002-12-01	5.52	30.17

HOME BUYERS' PLAN HELPS MORE THAN 117,000 INDIVIDUALS FULFIL HOME OWNERSHIP DREAM IN 1997

by Ali Manouchehri, Senior Economist - Capital Markets

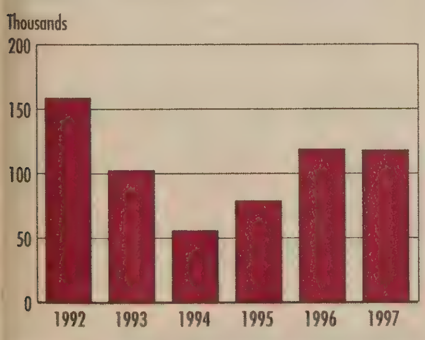
The federal government's Home Buyers' Plan helped over 117,000 individuals to become home owners in 1997 by allowing the withdrawal of more than $1.1 billion from RRSP funds toward a down payment. Nearly three quarters of the participants were from Ontario and Quebec.

Under the Home Buyers' Plan (HBP), the federal government allows Canadians to withdraw up to $20,000 tax free from their RRSPs to purchase homes. The amounts withdrawn remain tax-exempt if they are repaid within 15 years. The HBP has been limited to first-time home buyers since March 1994.

HBP helps home buyers

More than 117,000 individuals took advantage of HBP in 1997, withdrawing over $1.1 billion from RRSPs to buy homes. The program has given more than 623,000 individuals the opportunity to become home owners since it began in 1992. It has channeled more than $5.9 billion from RRSP funds into the housing market across the country.

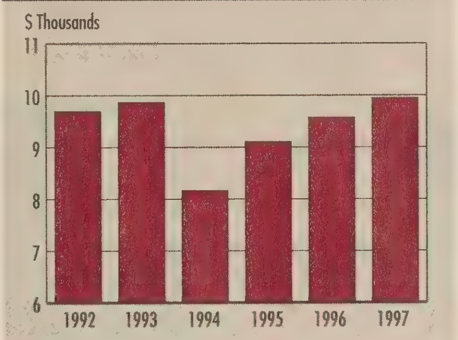
Number of participants



Source: Revenue Canada CMHC – MAC 1998

The average withdrawal under HBP rose by nearly 4 per cent in 1997, to reach an all-time record of $9,950. At the same time, participation in the program declined slightly, leading to a modest 3.2 per cent rise in total RRSP funds used to purchase homes last year.

Average withdrawal



Source: Revenue Canada CMHC – MAC 1998

The HBP has played an important role in the residential real estate market. According to a recent survey,[1] 37 per cent of first-time buyers used RRSP funds to purchase their homes in 1996-97. This is up from 30 per cent in the previous four years.

Provincial participation remains uneven

Participation in the program has varied from province to province. Last year, Ontario home buyers accounted for over 40 per cent of both participants and amounts withdrawn. Quebec accounted for 32 per cent of participants and 38 per cent of the amounts withdrawn, followed by B.C., with 11 per cent of participants and funds withdrawn. Average withdrawals ranged from a low of $6,482 in Saskatchewan to a high of $11,590 in Quebec. These provincial differences could be ascribed to home buyers' purchasing preferences, and diversity of housing markets and financial institutions.

Participants typically withdrew from more than one RRSP to buy a home. The average number of withdrawals per participant has been hovering around 1.3 since 1992.

[1] *The FIRM Survey, December 1997, Clayton Research Associates Ltd.*

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Provincial participation and average withdrawal in 1997

Province	No. of participants	Average withdrawal
NF	865	7,318
PE	244	6,256
NS	1,990	7,351
NB	1,112	6,863
QC	38,069	11,590
ON	47,484	9,666
MB	2,617	6,898
SK	1,850	6,482
AB	9,742	8,203
BC	12,949	9,461
NT & YK	201	8,553
Canada	117,123	9,943

Source: Revenue Canada, Data covers up to 17 December 1997.

Improving job prospects and low mortgage rates are likely to encourage more households to take advantage of the HBP to realize their dream of home ownership in 1998. ■

Resales dampened mortgage credit growth

According to the Multiple Listing Service (MLS), total dollar volume of transactions in the resale market dropped 2.9 per cent, to $48.9 billion in the fourth quarter from $50.3 billion in the third quarter, and dampened mortgage credit growth. The total number of resale transactions declined by 2.2 per cent, while the average sale price decreased 0.7 per cent.

More jobs mean greater ability to hold mortgages

Improving economic conditions, job prospects in particular, contributed to the increase in residential mortgage credit growth. Employment rose by 0.5 per cent, or by 73,000 jobs, in the fourth quarter of 1997. The resulting income growth has made it easier for consumers to borrow.

Banks continued to increase market share

Market share of outstanding mortgage credit by lender type in the fourth quarter continued to tilt in favour of chartered banks, 61.6 per cent. Market share advanced only for banks and for finance and loan companies. Trusts continued to lose significantly.

1998 and 1999 look good for mortgage financing

Low interest rates and improved job creation in the second half of 1998 and into 1999 are expected to further boost mortgage lending. Low mortgage rates will mean affordable financing costs, while higher employment will lead to increased home building, sales and prices. ■

Pierre Fournier: The point I like to make is that mortgage brokers are not financial institutions. We take care of all aspects of the customer's transaction, and we take the time to take care of them on that particular transaction.

John Ribalkin: I would like to add the word "trust." For a long time, brokers were not trusted whatsoever. Now, with a more educated public and the ease of service we provide, we're becoming the first choice of consumers to get the financing. The public believes in us and they value the information we're giving them.

Michael Ellenzweig: That's right. In the past, most consumers were concerned only with interest rates. Today, there are so many other considerations when dealing with the mortgage-the terms, the privileges, portability, whether it's closed or open. Mortgage brokers provide all that information.

MMT: What are the benefits to financial institutions in dealing with mortgage brokers?

John Ribalkin: First of all, a lending institution can save time and money by getting a specific type of deal that a mortgage broker has looked at and that fits its parameters. So, within a matter of minutes they can expedite a very quick approval, which is a huge cost savings.

Pierre Fournier: Lenders can also use mortgage brokers to increase their origination volumes. When they get the file, the deal is already prepared and ready to put through the channel. It's probably cheaper than trying to get the volume in other ways, such as advertising.

Art Trojan: I see three benefits to lenders and insurers. One is the consistency of the underwriting. Because there are now three electronic channels, there is a standardized format for all of the credit arriving on their desks, so it's much easier and more efficient to review the credit and make the proper adjudication. The second benefit is cost efficiency because all the applications go through one centre staffed, which is staffed with people who have the ability to make efficient, fast and timely decisions on the credit. The third benefit is that they've got a fixed, one-time price for the acquisition of the product.

Michael Ellenzweig: I might add that, in the past, financial institutions would have to have a mortgage professional on staff with all the associated overhead. That can now be eliminated. So there is a significant savings to the lending institution in originating mortgages through us.

MMT: Where do you see the industry ten years from now?

John Ribalkin: I think we're going to see a compounding of the growth we're experiencing today. More and more people are coming into the industry. The dollar figures are going to keep expanding as financial institutions keep reducing their branch locations and more consumers come directly to us. Look for the industry to at least double in size over the next ten years.

Art Trojan: I take a somewhat different view. I think the mortgage brokerage industry is going to continue to expand at a very regular rate, but I think what you're going to see is an expansion of the role of the mortgage broker. You're going to see people getting licensed to sell other personal financial service products. I think the mortgage brokerage business will take a quantum leap forward in the development and sales of additional personal financial services.

MMT: Do you see U.S. lenders and mortgage brokers entering the Canadian market? If so, what might be the impact?

Art Trojan: Because of the language and the close proximity to the Canadian marketplace, U.S. lenders have made a lot of overtures about it being natural to expand into Canada. But I can't see them coming here in the next two to three years. The way they do business in the United States and the way Canadian financial institutions do business here is very different. I think it's going to be some time before the U.S. banks figure out the correct formula for taking on the big banks here in Canada.

Michael Ellenzweig: In terms of mortgage brokers, there are some very large mortgage brokerage companies in the United States. If I recall correctly, one of the largest did $35 billion worth of business last year, which is half of the Canadian market.

Art Trojan: Yes, if U.S. mortgage brokers were looking north, they would probably come up here and buy up all the firms in the marketplace.

MMT: How significant is the Internet for the industry?

Michael Ellenzweig: I don't think the personal contact will ever be taken out of mortgage transactions, and there's no personal touch in dealing on the Internet.

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Pierre Fournier: I agree and disagree. Personal contact with good electronic tools is probably the best way to go. The Internet is in its infancy now, but in five or ten years it will be very important in our lives and the lives of our customers.

John Ribalkin: As the consumer starts to age, and I mean people in their twenties and thirties, and as online security keeps evolving, the Internet will be used more. Now, people don't want their personal information going into a little black box and out on the Internet, but that will change.

Art Trojan: For 1998-99, our firm has projected that two to five per cent of our gross revenue will come from Internet-related sources. At this time, there is still the trust issue about the public domain and access to information. As Pierre said, the generation following ours, that grew up with computers as we did with calculators, will be the ones using the Internet.

MMT: How will the recently proposed bank merger and consolidations in general in the finance industry affect mortgage brokers?

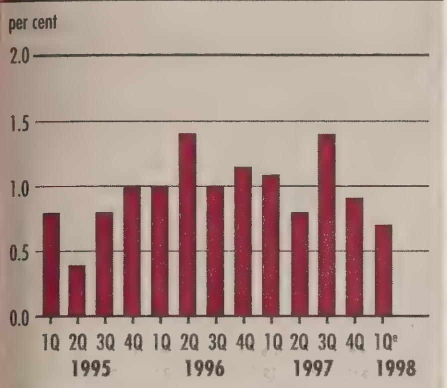
Pierre Fournier: I think consolidation in the finance industry will be good for mortgage brokers. We'll have more products and more aggressiveness in the market, and that will create better deals for the consumer.

Art Trojan: If we look at the two banks that proposed to merge, the Royal Bank has always prided itself on having its own in-house sales force to develop mortgage business. Conversely, the Bank of Montreal, through its Mbanx division, has openly embraced the mortgage brokerage community as a medium to obtain fixed-cost mortgage products. It's going to be really interesting to see which of those cultures wins out: the old hands-on, do-it-yourself culture or the let's-outsource-it culture. Time will tell.

MMT: Thank you and good luck. ■

CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE
SECOND QUARTER 1998

Residential Mortgage Credit Growth*
(from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC
CMHC – MAC 1998

Market Share of Residential Mortgage Credit* (%)

	1Q97	2Q97	3Q97	4Q97	1Q98[e]
Banks	58.1	58.8	60.3	61.9	62.5
Trusts	11.0	10.4	8.5	7.0	6.7
Caisses & Co-op	14.1	14.1	14.1	14.1	14.0
Life	6.3	6.2	6.1	6.0	6.0
Pension Funds	2.2	2.2	2.2	2.1	2.2
Fin. & Loan	8.3	8.3	8.8	8.8	8.7

e: estimate
*Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC
CMHC – MAC 1998

INSIDE

MORTGAGE CREDIT

MORTGAGE CREDIT OUTSTANDING SLOWS IN FIRST QUARTER OF 1998

by Michel Laurence, Manager, Economic and Housing Analysis

Outstanding mortgage credit expanded by 0.7 per cent in the opening quarter of 1998, reaching $374.4 billion, compared to $371.7 billion in the final quarter of 1997. The increase was the smallest since the second quarter of 1995.

Fewer existing home sales and higher mortgage rates took their toll

Credit volume growth was dampened by a reduction in existing home sales through the Multiple Listing Service,[1] which fell 7.8 per cent in dollar value. Higher mortgage rates, particularly for shorter terms, also slowed demand for credit. Average one-year rates rose from 5.98 per cent in the fourth quarter last year to 6.40 per cent in the first quarter this year. Five-year rates were essentially unchanged, from 7.82 to 7.85 per cent over the same period. The adverse effects of these higher rates were blunted, however, as borrowers have shown a clear preference for the stable rates offered by longer-term loans.

A partial offset came from moderate gains in new housing markets, where starts rose 1.9 per cent and prices inched up 0.6 per cent. This was accompanied by strong consumer willingness to spend on big-ticket items, such as home improvement projects. A greater ability to borrow as a result of the improved job picture may also have contributed to greater demand for mortgage refinancing.

Mortgage credit to grow further

Total mortgage credit outstanding is expected to increase at a similar pace in the second quarter of 1998. New and existing housing markets seem to have reached a plateau and are not expected to become much more active before the end of summer. It will be some time yet before the effects of stronger job creation over the last several months succeed in lifting housing demand and mortgage credit to substantially higher levels. The slowdown in

Continued on page 6

1 *Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.*

HOUSING FINANCE MODEL FOR EMERGING MARKETS

by Marc Godbout, Service d'informations économiques Infuni

Integrating mortgage insurance and mortgage refinance is a key formal housing finance model for emerging markets.

This model has a number of inherent advantages:

- It allows for the reduction of risks associated with formal finance.
- It favours the standardization of underwriting practices and the collection and dissemination of data on loan files.
- It raises the number of new lenders with access to low-cost mortgage management expertise.
- It increases the supply of long-term funds by facilitating the emergence of a secondary mortgage market.

Market globalization shapes intervention strategies on formal housing finance in emerging markets

Most formal finance models adopted by emerging markets during the 1960s and 1970s were based on direct government intervention in the granting of loans. Corporations and several other public entities were created, with fiscal, financial and legal privileges so that they could play their role effectively.

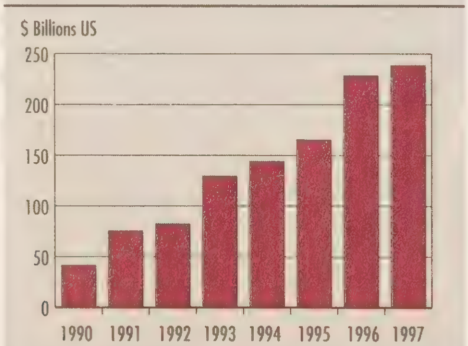
These conditions provided stronger ground for housing by meeting the demand for housing finance. The privileges enjoyed by public lending institutions, however, became an obstacle to the growth in the supply of funds to finance housing. In fact, these privileges hindered the direct participation of private financial institutions in this market.

These obstacles were especially felt during the 1990s, when financial activities in emerging markets were integrated with those in the rest of the world. As shown in graphs 1 and 2, their financial sectors became much more active, both in terms of financial security issues and the purchase and repurchase of securities.

This integration was carried out through the establishment of a series of economic and monetary policies aimed at ensuring a better allocation of financial resources among the different sectors of the economy. These policies included:

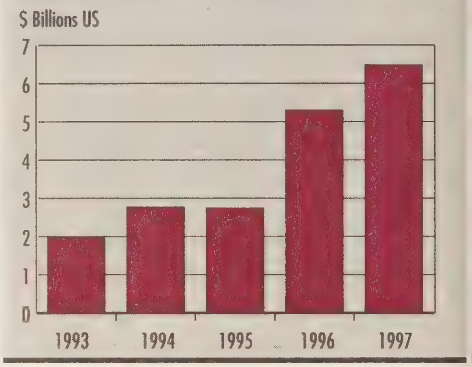
- the progressive adoption of a variable exchange rate system and further opening up of the national financial market to international markets;
- the privatization of government corporations and the introduction of free competition;
- the determination of interest rates through market mechanisms by developing a secondary income security market under the supervision of monetary authorities; and
- the reduction of the government's debt and borrowing levels.

Graph 1: Securities Issues in Emerging Markets



Note: The data for 1997 are estimates.
Source: International Monetary Fund (IMF), International Capital Markets, 1997 CMHC – MAC 1998

Graph 2: Secondary Fixed-Interest Securities Issues in Emerging Markets



Note: The data for 1997 are estimates.
Source: International Monetary Fund (IMF), International Capital Markets, 1997 CMHC – MAC 1998

These new policies spelled the end of the old housing finance model for emerging markets. In fact, the old financial model worked independently of the financial sector, which was itself disconnected from other financial markets around the world. Any new system had to take these realities into consideration.

Emergence of a new intervention model

Most policies that have been under review aim to introduce market mechanisms that will help increase the supply of long-term funds for housing finance. These new mechanisms are also designed to increase the number of homeowner households while increasing the supply of housing units by reducing construction costs and time frames.

One of the proposed changes advocates establishing mortgage refinance mechanisms. An example is the Jordan Refinance Mortgage

Company, formed in 1996. Morocco and Chile are studying this alternative along with other mechanisms.

The theoretical models must be adapted to the realities of each emerging market and, above all, play a catalytic role in order to increase the supply of funds for housing finance. These models can take on different forms:

- A mortgage refinance program
- A mortgage insurance program[1]
- A guarantee program introducing securitization processes
- A combination of the above.

In some countries, the mortgage refinance mechanism alone is clearly not sufficient. In Russia and China, for example, vast regions are at different stages of economic development, and private housing finance is not possible for risk and profit reasons.

When mortgage insurance is introduced, funds can be distributed more effectively and made more widely available through different regions of a country. Mortgage insurance can also serve to better organize the development of the housing sector by standardizing all operations related to mortgage activities.

Positive lessons from the Canadian experience

The Canadian intervention model has adapted itself to structural changes since 1954, when the National Housing Act was passed. Mortgage insurance has played a more essential role in the development of housing finance in Canada than any other initiative.

- It has given Canadians equal access to mortgage financing by allowing them to make a minimum down payment of less than 25 per cent for the purchase of a property.
- It has facilitated the creation of innovative financing tools and allowed for the emergence of a mortgage repurchase and mortgage-backed securities market.
- It has supported social housing development initiatives.
- It has improved the performance of some financial institutions by reducing the risk and the capital required for lending.

Underpinning the Canadian model is the active participation of Canada Mortgage and Housing Corporation (CMHC), which manages the mortgage insurance program. Its legislated mobilizing and catalyzing role also includes the improvement of underwriting standards and the provision of information.

The Canadian experience shows that an improved model can be adapted to the realities of emerging markets. A sophisticated information system and integrated intervention mechanisms increase the supply of long-term funds[2] for

Continued on page 11

1 Mortgage insurance protects lenders against borrower default.

2 Mortgage insurance transfers the risk of borrower default to the insurer. In addition, the level of capital required for risk coverage for this type of activity is between zero and 20 per cent.

Mortgage Credit Outstanding[1] (in millions of dollars)

	1996	1997	97Q1	97Q2	97Q3	97Q4	98Q1 [e]
TOTAL	350,237	365,817	360,227	363,119	368,246	371,676	374,444
% change	4.1	4.4	1.1	0.8	1.4	0.9	0.7
Banks	198,289	218,787	209,386	213,517	222,023	230,222	233,845
Trust Co.	42,106	33,731	39,725	37,676	31,403	26,121	25,108
Caisses & CO-OP	49,322	51,569	50,777	51,325	51,927	52,248	52,469
Life Ins. Co.	22,722	22,441	22,647	22,516	22,333	22,269	22,381
Pension Funds	7,724	8,014	7,951	8,092	8,030	7,982	8,140
Fin. & Loan	30,074	31,275	29,742	29,994	32,531	32,834	32,502

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

NHA and Conventional Loans Approved[1]

		1996	1997	97Q1	97Q2	97Q3	97Q4
TOTAL	$ millions	70,871	75,312	19,084	21,469	17,884	16,875
	Units	840,044	837,479	210,686	241,339	201,984	183,470
NHA	$ millions	29,767	31,375	8,322	9,055	7,278	6,720
	Units	360,802	353,626	93,388	104,174	80,768	75,296
Conventional	$ millions	40,904	43,937	10,762	12,414	10,606	10,155
	Units	479,242	483,853	117,298	137,165	121,216	108,174
By Type of Lender							
Banks	$ millions	51,284	57,424	14,365	16,264	13,781	13,014
	Units	581,320	602,491	149,519	171,215	149,438	132,319
Trust Co.	$ millions	8,021	7,335	2,079	2,226	1,690	1,340
	Units	89,032	80,406	22,903	24,301	18,683	14,519
Life Ins. Co.	$ millions	2,926	2,716	593	807	546	770
	Units	50,126	47,876	10,993	15,993	9,078	11,812
Others	$ millions	8,440	7,837	2,047	2,172	1,867	1,751
	Units	119,586	106,706	27,271	29,830	24,785	24,820

(1) Not Seasonally Adjusted

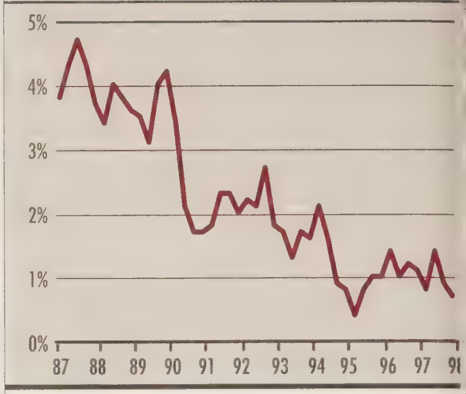
Source: CMHC. *CMHC – MAC 1998*

Mortgage Rates (%) (Average of period)

	1996	1997	97Q1	97Q2	97Q3	97Q4	98Q1
1-Year Mortgage Rate	6.19	5.54	5.15	5.38	5.65	5.98	6.40
3-Year Mortgage Rate	7.33	6.56	6.43	6.75	6.50	6.57	6.70
5-Year Mortgage Rate	7.92	7.07	7.18	7.33	6.95	6.82	6.85

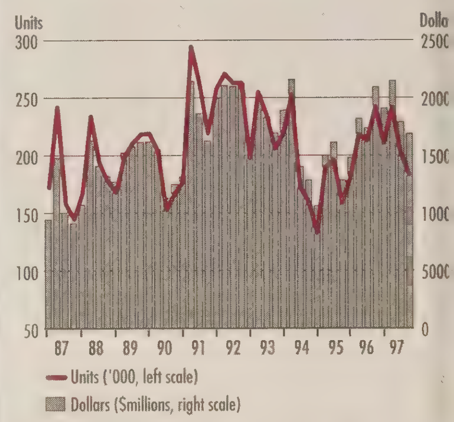
Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

Quarterly Residential Mortgage Credit Growth



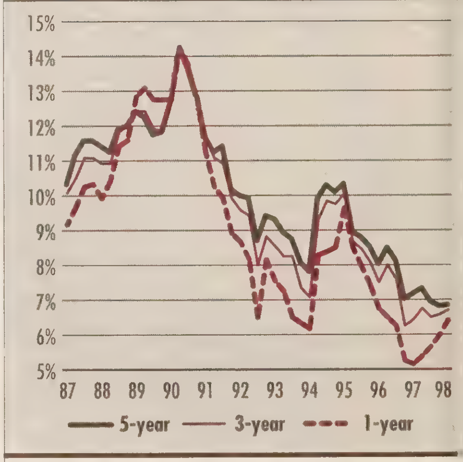
Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

NHA and Conventional Approvals



Source: CMHC. *CMHC – MAC 1998*

Mortgage Rates



Source: Bank of Canada. *CMHC – MAC 1998*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506. Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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NHA MORTGAGE-BACKED SECURITIES

NHA MBS UP AND RISING TO NEW HIGHS

by Ali Manouchehri, Senior Economist - Capital Markets

The NHA MBS market continued to steam ahead, with $3,701.7 million in new issues in the first quarter of 1998. Record issues of NHA MBS since early 1997 have enhanced the role of MBS in the mortgage market.

NHA MBS started 1998 on a strong note, with 65 new pools issued in the opening quarter, amounting to a record $3,701.7 million. This follows the all-time high of $6,949.0 million issued in 1997.

What is driving MBS growth?

The major forces behind this growth remain the same as last year: a dwindling supply of term deposits as a source of mortgage funding, portfolio management considerations by several financial institutions and increasing reliance on longer-term mortgages.

The ratio of NHA MBS issues to mortgage approvals rose to 9.2 per cent last year from 2.6 per cent in 1996, signaling the enhanced role of NHA MBS in the mortgage market.

Single family pools lead the race

Composition of the pools issued has changed over time. When MBS began, social housing and single family residential pools accounted for the entire issue. By the early 1990s, single, social housing, and multiple pools formed the bulk of new issues. In the first quarter of 1998, over 85 per cent of the pools issued were single residential pools, totaling $3,538.7 million or 95 per cent of all issued amounts. Issues of pool 970, the single residential with no Penalty Interest Payments (PIP) but with indemnity, constituted 92.8 per cent of the single residential pools in this quarter.

Issues of multiple residential pools in the first quarter of 1998 declined to $10.0 million from $151.7 million in the previous quarter. Issues of social housing pools also shrank, by 53.6 per cent, to $67.0 million in the last quarter. Mixed pools, totaling $85.8 million, were up by 16.4 per cent from the previous quarter.

MBS-Government of Canada (GOC) bond spreads for all pool types rose by 1-3 basis points from the previous quarter.

MBS highlights - First quarter 1998

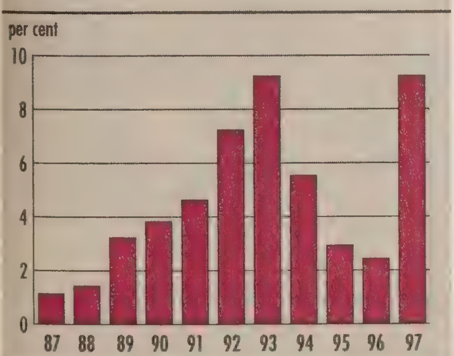
New issues:

- 65 pools for $3,701.7 million
- 55 single family pools amounting to $3,538.7 million, nearly three times the previous quarter
- Issues of social housing and multiple residential pools were down to $10.0 and $67.0 million respectively
- MBS-GOC five-year spreads up 1-3 basis points for various pools from the previous quarter

Main issuers of NHA MBS

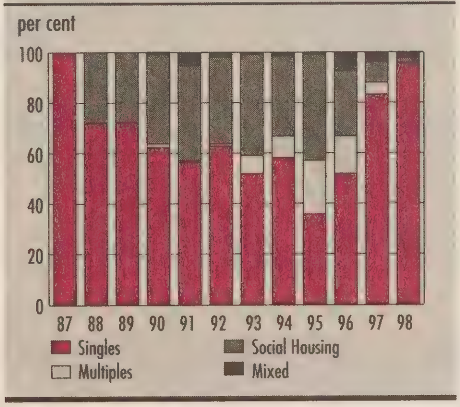
The changes in the type of financial institutions which utilize NHA MBS

Mortgage Market Securitization – *MBS issue/mortgage approval*



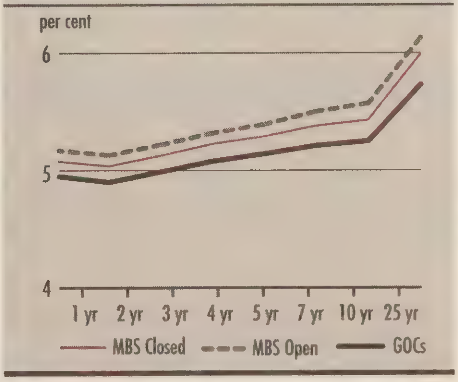
Source: CMHC CMHC – MAC 1998

MBS Amounts Issued by Pool Type



1998 data covers the first quarter.
Source: CMHC CMHC – MAC 1998

NHA Mortgage-Backed Securities Yield Analysis – *March 31, 1998*

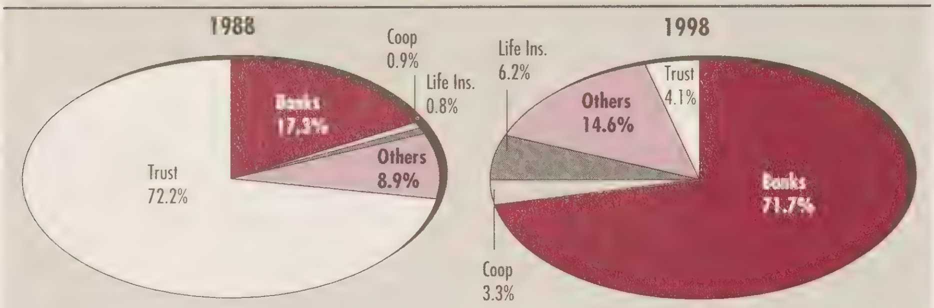


Source: Nesbitt Burns. CMHC – MAC 1998

NHA MBS *cont'd*

mirror changes in the mortgage market and financial services industry. While trusts issued 72.2 per cent of all NHA MBS ten years ago, they accounted for only 4.1 per cent of the issues in the first quarter of 1998. On the other hand, chartered banks increased their share of issues over the same period, from 17.3 per cent to 71.7 per cent. ■

MBS market share by issuer type



1998 data covers the first quarter.
Source: CMHC

CMHC – MAC 1998

MORTGAGE CREDIT *cont'd*

the high-priced B.C. housing market will also cap upward potential in mortgage lending.

No stop in bank market share growth

While total mortgage credit rose, mortgage lending by banks continued to rise at a faster pace, 1.6 per cent over the previous quarter. This lifted mortgage market share for banks to another high of 62.5 per cent in the first quarter, the bulk of which was garnered by the top five Canadian institutions. Outstanding mortgage credit growth for banks has consistently outpaced growth in all other types of financial institutions combined. ■

NHA Mortgage-Backed Securities First Quarter Issues

January to March 1998

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-895	PAFCO INSURANCE COMPANY	7,292,481.93	5.500	2003-01-01	6.69	24.41
96-412-903	VANC. CITY SVGS. CREDIT UNION	23,973,399.67	4.850	2002-11-01	6.24	21.22
96-412-911	VANC. CITY SVGS. CREDIT UNION	17,641,226.51	4.950	2000-07-01	5.89	21.37
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-707	THE EQUITABLE TRUST COMPANY	12,818,089.54	5.050	2003-01-01	5.97	22.16
96-500-715	THE EQUITABLE TRUST COMPANY	9,483,435.00	5.850	2018-01-01	6.58	20.41
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-978	M.R.S. TRUST COMPANY	10,004,500.00	5.750	2008-01-01	6.29	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP)						
96-702-170	HONGKONG BANK OF CANADA	9,605,598.45	5.250	2002-12-01	6.13	21.41
96-702-188	HONGKONG BANK OF CANADA	14,349,947.93	5.250	2002-12-01	6.16	21.72
96-702-196	HONGKONG BANK OF CANADA	7,753,336.45	5.000	2001-01-01	5.89	22.35
96-702-204	CIBC MTGS INC.(FIRSTLINE MTG)	5,092,725.42	5.500	2008-01-01	6.92	12.80
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-756	CANADA TRUSTCO MORTGAGE CO.	107,358,222.17	5.200	2003-01-01	6.34	21.35
97-000-764	THE EQUITABLE TRUST COMPANY	10,873,124.20	5.625	2008-01-01	6.54	21.65
MONTH OF ISSUE: February 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-937	FIRST HERITAGE SAVINGS CR.UN.	9,719,942.67	5.250	2003-02-01	6.22	22.27
96-412-929	SUN LIFE TRUST COMPANY	24,786,671.61	5.250	2003-02-01	6.00	22.65
96-412-945	PAFCO INSURANCE COMPANY	5,142,814.06	5.500	2003-02-01	6.80	23.87
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-723	PEOPLES TRUST COMPANY	6,876,844.71	5.500	2008-02-01	6.39	22.27
96-500-731	PEOPLES TRUST COMPANY	15,003,718.96	5.000	2003-02-01	6.05	22.65
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP)						
96-702-212	HONGKONG BANK OF CANADA	12,052,363.68	5.000	2003-01-01	6.14	21.57
96-702-220	HONGKONG BANK OF CANADA	11,537,867.43	5.250	2003-01-01	6.13	21.99
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-608	ROYAL BANK OF CANADA	526,476,181.91	5.375	2002-10-01	6.47	20.52
97-000-616	ROYAL BANK OF CANADA	355,465,502.56	5.375	2002-04-01	6.48	20.09
97-000-624	ROYAL BANK OF CANADA	279,424,752.34	5.375	2002-10-01	6.55	10.93
97-000-632	ROYAL BANK OF CANADA	229,448,327.89	5.375	2002-04-01	6.57	10.64
97-000-657	ROYAL BANK OF CANADA	190,428,170.97	5.125	2003-01-01	6.17	20.53
97-000-665	ROYAL BANK OF CANADA	100,450,694.15	6.000	2001-05-01	7.35	19.71
97-000-673	ROYAL BANK OF CANADA	88,439,800.28	6.000	2001-05-01	7.43	10.76
97-000-681	ROYAL BANK OF CANADA	181,479,022.28	5.125	2003-01-01	6.21	10.94
97-000-699	ROYAL BANK OF CANADA	206,452,383.96	6.250	2001-10-01	7.59	19.44
97-000-707	ROYAL BANK OF CANADA	123,979,509.77	6.375	2001-10-01	7.85	10.69
97-000-772	CANADA TRUSTCO MORTGAGE CO.	95,622,775.57	5.200	2003-02-01	6.32	20.66
97-000-780	CANADA TRUSTCO MORTGAGE CO.	39,511,760.08	5.200	2003-02-01	6.33	12.02
97-000-798	CANADA TRUSTCO MORTGAGE CO.	24,468,875.12	4.850	2001-02-01	5.96	21.13
97-000-822	THE EQUITABLE TRUST COMPANY	10,812,243.05	5.450	2003-02-01	6.60	21.79
97-000-830	CIBC MTGS INC.(FIRSTLINE MTG)	30,814,367.88	5.250	2003-02-01	6.24	21.61
97-000-848	CIBC MTGS INC.(FIRSTLINE MTG)	10,013,130.37	5.600	2008-02-01	6.78	20.78
SOCIAL HOUSING POOLS						
99-007-676	TORONTO-DOMINION BANK	51,281,989.47	5.000	2003-02-01	5.60	30.48

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: March 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-412-986	VANC. CITY SVGS. CREDIT UNION	17,453,903.87	4.500	2002-03-01	6.53	20.76
96-412-994	VANC. CITY SVGS. CREDIT UNION	37,123,588.97	5.250	2003-03-01	6.17	22.23
96-413-000	VANC. CITY SVGS. CREDIT UNION	17,863,587.21	5.700	2002-07-01	6.60	21.68
96-412-952	PAFCO INSURANCE COMPANY	6,140,249.85	5.400	2003-03-01	6.87	23.94
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-749	PEOPLES TRUST COMPANY	19,281,964.77	5.375	2003-03-01	6.13	24.92
96-500-756	PAFCO INSURANCE COMPANY	2,223,270.40	5.375	2001-03-01	6.81	23.16
96-500-764	THE EQUITABLE TRUST COMPANY	20,157,205.24	5.400	2008-03-01	6.13	22.83
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP)						
96-702-238	HONGKONG BANK OF CANADA	9,627,793.49	5.250	2003-02-01	6.17	21.78
96-702-246	HONGKONG BANK OF CANADA	12,726,306.49	5.250	2003-02-01	6.15	22.02
96-702-253	HONGKONG BANK OF CANADA	5,488,166.22	5.000	2001-03-01	5.87	20.75
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-000-806	NATIONAL BANK OF CANADA	150,125,639.41	5.375	2002-12-01	6.69	22.15
97-000-814	NATIONAL BANK OF CANADA	73,197,475.40	5.375	2002-12-01	6.70	11.15
97-000-855	CANADA TRUSTCO MORTGAGE CO.	15,597,985.04	5.000	2003-03-01	6.35	11.77
97-000-863	CANADA TRUSTCO MORTGAGE CO.	17,363,762.36	5.000	2002-06-01	6.39	19.75
97-000-889	CANADA TRUSTCO MORTGAGE CO.	62,430,328.42	5.000	2003-03-01	6.39	20.95
97-000-897	MUTUAL LIFE ASSURANCE CO.-CAN.	63,895,783.33	5.375	2001-06-01	7.36	19.67
97-000-905	MUTUAL LIFE ASSURANCE CO.-CAN.	35,952,825.44	5.375	2001-11-01	7.78	19.64
97-000-913	MUTUAL LIFE ASSURANCE CO.-CAN.	41,983,670.36	5.375	2002-05-01	6.73	19.57
97-000-921	MUTUAL LIFE ASSURANCE CO.-CAN.	13,397,335.87	5.250	2002-11-01	6.69	19.61
97-000-939	MUTUAL LIFE ASSURANCE CO.-CAN.	23,513,955.21	5.375	2002-05-01	6.81	11.44
97-000-947	MUTUAL LIFE ASSURANCE CO.-CAN.	11,410,607.33	5.250	2002-11-01	6.71	11.26
97-000-954	MUTUAL LIFE ASSURANCE CO.-CAN.	18,792,586.57	5.250	2003-03-01	6.34	20.29
97-000-962	CIBC MTGS INC.(FIRSTLINE MTG)	61,722,246.21	5.200	2003-03-01	6.42	21.60
97-000-970	CIBC MTGS INC.(FIRSTLINE MTG)	25,352,628.32	5.200	2003-03-01	6.45	11.50
97-000-988	THE EQUITABLE TRUST COMPANY	8,763,482.15	5.850	2008-03-15	6.55	21.56
97-000-996	THE EQUITABLE TRUST COMPANY	2,391,010.07	5.650	2005-03-01	6.39	20.85
97-001-002	CIBC MTGS INC.(FIRSTLINE MTG)	29,679,482.53	5.350	2003-03-01	6.31	21.78
97-001-010	CIBC MTGS INC.(FIRSTLINE MTG)	16,345,796.01	5.300	2003-03-01	6.23	11.79
SOCIAL HOUSING POOLS						
99-007-684	TORONTO-DOMINION BANK	15,745,342.12	5.125	2003-03-01	5.67	30.00

MORTGAGE TERMS IN 1998 AMONG THE LONGEST IN TWENTY YEARS

by Ali Manouchehri, Senior Economist - Capital Markets

More borrowers have been opting for longer-term mortgages since 1995 in response to low mortgage rates, a flatter yield curve, and a wider selection of mortgage products. The preference for longer-term mortgages intensified in 1997 and early 1998.

Lenders offering longer term mortgages again

Until the 1960s, most residential mortgages were closed and for terms of from 25 to 40 years. This situation changed in the decades that followed as a result of substantial changes in the financial services industry and the mortgage market. In the 1970s and early 1980s, lenders became increasingly vulnerable because of rising inflation and interest rates, and offered shorter term mortgages. By the late 1980s, five years had become the norm for long-term mortgages and the typical short-term mortgage was for one year.

By the mid 1990s, there were major changes in the financial and economic conditions within which the mortgage market operated. The most important of these was the easing of inflation. At the same time, by 1997 balanced budgets in nearly all provinces and in the federal government reduced the supply of government bonds and treasury bills while lowering their yields. For a year and a half before mid-1997, interest rates declined significantly across the board, pushing down mortgage rates. The decline in yields for bonds of at least ten years continued well into 1998.

With innovation and restructuring in the finance industry, this decade has witnessed the emergence of virtual banking, Internet mortgage banking, *emili* insurance approval, new mortgage products, and alternative mortgage terms. While banks increased their share of mortgage market, strong competition among lenders led to discounts from posted mortgage rates.

The prevalence of stable, low interest and mortgage rates has led to a revival of interest in longer term mortgages. An increasing number of lenders now offer mortgages with terms of seven or ten years, and even longer. The ability to offer longer term loans has many implications for lenders, as it influences their funding strategy and portfolio management decisions. The transition to longer term loans was strongly supported by the introduction in 1987 of the NHA Mortgage-Backed Securities Program. With securitization, the institutions participating in this program end up with more liquidity and can thus offer a wider range of mortgage products, especially longer term ones.

Borrowers going longer too

A CMHC study[1] found that in the years 1980-94 the lock-in premium would have made it more advantageous in 85 per cent of all cases for mortgagors to select one-year terms and roll over their mortgages than to opt for five-year terms. Figures for the period 1960-96 show that borrowers would have been better off going long in the late 1960s and early 1970s.

So what should borrowers do now? They must consider their own attitude toward risk and their ability to withstand mortgage rate increases. Also important are market factors, such as the size of the lock-in premium and the expected course of mortgage rates.

As long-term bond yields continue to slide, so do long-term mortgage rates, reducing the difference between longer and shorter term mortgage rates, or the lock-in premium. The smaller lock-in

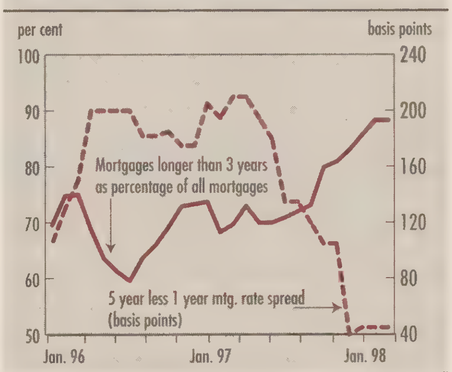
Continued on page 12

1 *For details see, Mary McDonough,"Strategies for Mortgage Term Selection," Mortgage Market Trends, Fourth Quarter 1995.*

Key dates in mortgage term trends:

- 1969 - National Housing Act (NHA) amended so that lenders could issue five-year NHA-insured mortgage loans. Mortgage terms had previously been restricted to 25-40 years.
- 1980s - Variety of mortgage terms introduced, including one- and three-year terms.
- 1988 to present - Long-term mortgages reintroduced, including those for terms of 7, 10, and 25 years.

As Term Structure Gets Flatter More Mortgagors Go Long



1998 covers up to the end of March
Source: CMHC *CMHC–MAC 1998*

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

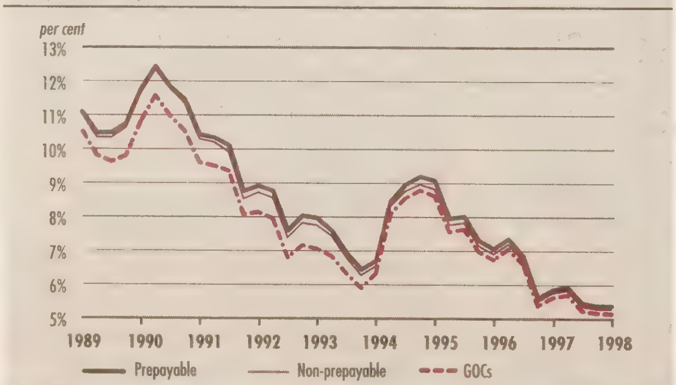
		1996	1997	97Q1	97Q2	97Q3	97Q4	98Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	13,968.4	14,787.4	14,626.0	14,319.6	14,870.5	14,787.4	17,404.
	Units	1,370	1,251	1,355	1,332	1,286	1,251	1,23
Residential, single (with PIP) (1)	$million	5,607.1	2,961.7	4,729.1	4,123.1	3,403.0	2,961.7	2,835.
	Units	740	581	714	684	632	581	54
Residential, single (no PIP)	$million	997.7	1,383.6	2,788.0	1,232.7	1,362.5	1,383.6	1,397.
	Units	131	191	162	165	178	191	20
Residential, single (no PIP with indemnity) (2)	$million		4,371.0		2,172.5	3,829.0	4,371.0	7,525.
	Units		60		18	40	60	9
Residential, multiple	$million	1,385.5	1,580.3	$1,444.5	$1,480.1	$1,446.9	$1,580.3	$1,538.
	Units	59	87	64	71	75	87	8
Social Housing	$million	5,730.6	4,048.6	$5,387.7	$4,978.6	$4,447.5	$4,048.6	$3,590.
	Units	404	279	372	347	311	279	24
Mixed	$million	247.5	442.5	$277.0	$332.7	$381.4	$442.5	$517.
	Units	36	53	43	47	50	53	5
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,722.7	6,949.0	$2,234.2	$1,144.4	$2,301.7	$1,268.7	$3,701.
	Units	154	238	57	50	61	70	6
Residential, single (with PIP)	$million	522.2	532.8	$217.8	$52.4	$126.4	$136.1	$167.
	Units	37	43	11	8	11	13	1
Residential, single (no PIP)	$million	371.7	679.8	$134.4	$209.1	$203.5	$132.8	$88.
	Units	53	60	18	16	13	13	
Residential, single (no PIP with indemnity) (2)	$million		4576.7	1,721.5	594.2	1,631.2	629.8	3,283.
	Units		60	13	8	19	20	3
Residential, multiple	$million	254.9	329.2	$65.4	$83.5	$28.6	$151.7	$10.
	Units	21	29	5	7	5	12	
Social Housing	$million	446.4	568.3	$42.7	$136.4	$244.7	$144.5	$67.
	Units	31	21	3	5	8	5	
Mixed	$million	127.5	262.2	$52.5	$68.8	$67.2	$73.7	$85.
	Units	12	25	7	6	5	7	
YIELDS (5-YAR MATURITY, %)								
MBS Prepayable (with PIP)		6.73	5.66	5.86	5.94	5.47	5.39	5.3
MBS Prepayable (no PIP)		6.77	5.73	5.91	6.02	5.53	5.46	5.4
MBS Non-prepayable		6.59	5.56	5.76	5.84	5.36	5.29	5.2
MBS MMUF		6.64	5.62	5.81	5.88	5.42	5.37	5.3
Mortgage rates		7.92	7.07	7.18	7.33	6.95	6.82	6.8
GOCs		6.44	5.43	5.62	5.70	5.24	5.17	5.1
SPREADS OVER GOC (5-YEAR MATURITY,%)								
Prepayable (with PIP)		0.28	0.23	0.24	0.24	0.23	0.22	0.2
Prepayable (no PIP)		0.33	0.30	0.29	0.32	0.30	0.29	0.3
Non-prepayable		0.14	0.13	0.14	0.14	0.12	0.12	0.1
MMUF		0.20	0.19	0.19	0.18	0.18	0.20	0.2
Mortgage rates		1.48	1.64	1.56	1.63	1.71	1.65	1.7

(1) PIP stands for Penalty Interest Payments (2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.
Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC.

CMHC – MAC 19

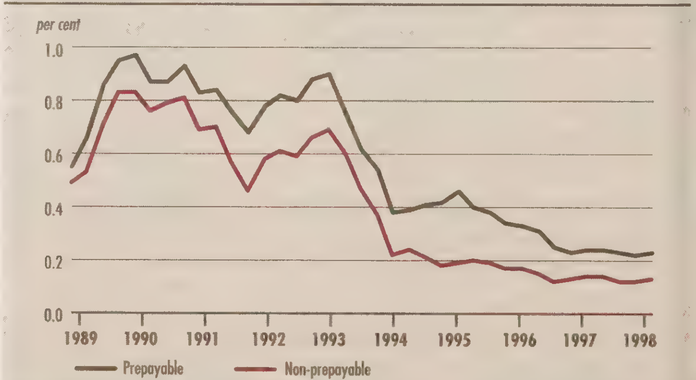
Selected Interest Rates
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 1998

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 19

housing finance. Interventions can be carried out through mortgage insurance and support to financial market operations.

Figure 1 shows a formal housing finance model with a mortgage insurance component, which reflects the Canadian experience.

This model offers wide access to mortage finance for households. It also increases the participation of financial institutions in formal housing finance by:

- reducing the credit risk for lenders (i.e., borrower default),
- lowering the level of capitalization required for insured mortgage activities, and
- minimizing the liquidity and interest rate risks associated with the mismatch between the short and long terms with the introduction of a mortgage refinance or securitization programs.

It should create an information system that will reduce the costs associated with loans administration and allow for the standardization of underwriting and property appraisal practices.

Mortgage insurance in emerging markets

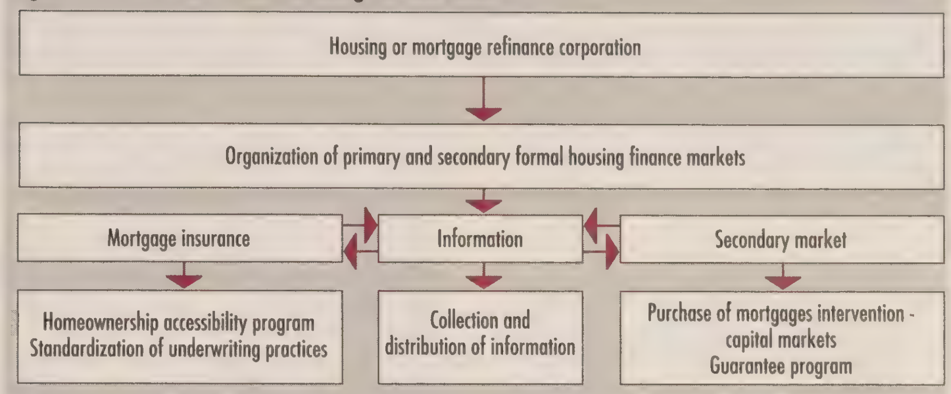
Is it possible to integrate a mortgage insurance system with mortgage refinance mechanisms in emerging markets? The answer is a cautious yes, but with certain caveats.

Mortgage insurance can be introduced in emerging markets if the financial system is sufficiently developed and if it offers a varied range of services, for example, savings (such as term deposits and demand deposits) and lending (such as consumer and business loans). It must also have a network of financial institution branches covering the entire urban territory.

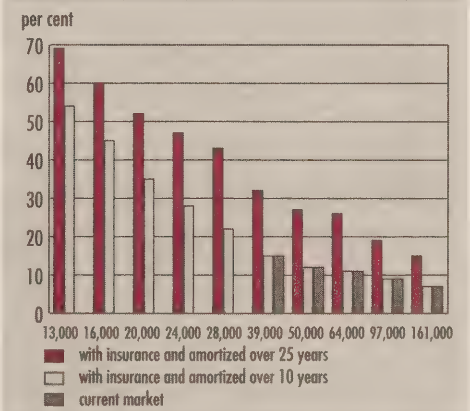
The second essential criterion is a minimum of restrictions preventing builders from offering properties at an affordable price. The length of time it takes to obtain building permits must also be reduced, and the legal constraints preventing lenders from getting their guarantees within a reasonable time period must disappear.

Finally, there must be mortgage refinance mechanisms so that the supply of long-term funds[3] can be increased. Lenders should be able to offer longer-term loans (of 20 or 25 years), so that the size of monthly payments required by households can be reduced. With these measures, a greater number of households will qualify for loans.

Figure 1 - Theoretical Formal Housing Finance Model



Graph 3: Households Able to Access Homeownership in Morocco by Loan Value



Note: Loan values are in Canadian dollars. *CMHC – MAC 1998*

Graph 3 uses the data for Morocco to illustrate how more households qualify for loans when the supply of affordable housing units increases and these units are financed on the basis of a 10 per cent down payment and a 25-year amortization period. The current formal housing finance market currently reaches only 16 per cent of households.

Even when a country meets the criteria listed above, the financial viability of mortgage insurance must be examined in detail. Because default rates in emerging markets could be very high for this type of activity, the program must have the financial leverage required for self-financing.

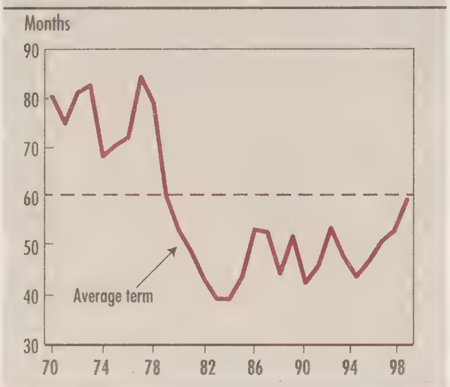
In this regard, it becomes extremely important to set the appropriate premium level. If it is too high, low-income households may not be able to participate. A minimum level of risk must be chosen for which mortgage insurance should be mandatory, and affordability must be increased while remaining within the financial viability of such an operation.

If this is to happen, the risks of low-ratio and high-ratio loans must be weighed against each other. With balanced risks, the mortgage insurance fund would be assured a high level of capitalization to cover lender claims and premium levels would remain affordable for participating households. ■

3 For example, while they may have a sophisticated banking system, several emerging countries currently find themselves with excessive short-term liquidities, as much as 90 per cent of their deposits, while savings loans are typically five, ten, or fifteen years. As a result, these countries are reluctant to offer a mortgage lending service, as this would increase their exposure to fluctuations in short-term rates. Mortgage refinance mechanisms therefore represent protective measures for lenders by allowing for a better match between the terms of assets and liabilities.

premium should encourage more mortgagors to go long rather than short. Moreover, because mortgagors base their decision to go short or long largely on how they view the future course of mortgage rates, the expectation of rising rates should make them more likely to lock in for longer terms so that they can reduce the consequences of rising mortgage rates and payments.

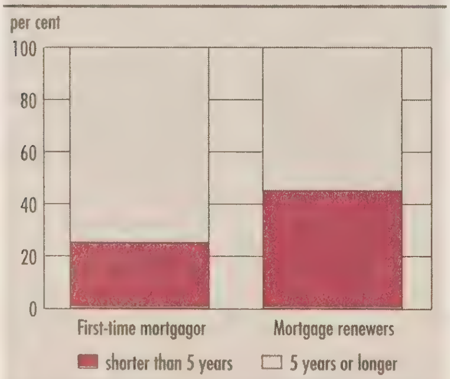
Average Term for NHA Loans Longest in 20 Years



1998 covers up to the end of March
Source: CMHC *CMHC – MAC 1998*

Reflecting these developments, some borrowers have already begun to stretch their terms longer than in the past. In the first quarter of 1998, the average term for new NHA loans increased to nearly five years, the longest period in twenty years. This means there are borrowers on the market who have opted for longer terms rather than worrying about possible increases in mortgage rates.

More First-time Borrowers and Renewing Mortgagors Opted for Longer Terms in 1997



Source: The FIRM Residential Mortgage Survey, Clayton Research Associates Limited, December 1997 *CMHC – MAC 1998*

First-time borrowers and mortgage renewers alike have selected longer mortgages in the last couple of years. In a recent survey,[2] 55 per cent of those renewing their mortgages and 75 per cent of first-time mortgagors opted for mortgage terms of five years or longer, both up by nearly 3 percentage points since 1995.

If interest rates continue to remain low in the near future, especially for longer term mortgages, an increasing number of borrowers could opt for terms of seven, ten, and even twenty-five years. ■

2 The FIRM Residential Mortgage Survey, Clayton Research Associates Limited, December 1997.

ANADA MORTGAGE AND HOUSING CORPORATION

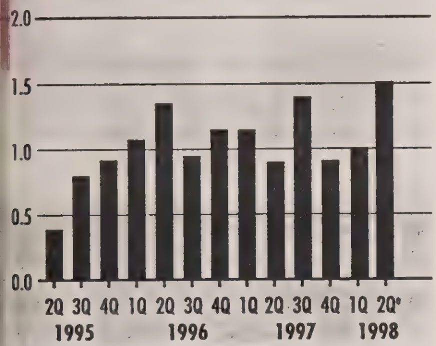
CMHC MORTGAGE MARKET

TRENDS

ARKET ANALYSIS CENTRE

THIRD QUARTER 1998

esidential mortgage credit growth*
rom previous quarter)



ominal e: estimate
urces: Bank of Canada; CMHC CMHC – MAC 1998

larket share of residential mortgage credit* (%)

	2Q97	3Q97	4Q97	1Q98	2Q98^e
anks	58.8	60.3	62.1	62.5	62.6
rusts	10.4	8.6	7.0	6.7	6.5
aisses & Co-op	14.2	14.1	14.2	14.1	14.0
ife	6.1	6.0	5.8	5.7	5.6
ension Funds	2.2	2.2	2.1	2.1	2.1
in. & Loan	8.3	8.8	8.8	8.9	9.1

estimate
Total may not add up to 100% due to rounding
ources: Bank of Canada; CMHC CMHC – MAC 1998

INSIDE

MORTGAGE CREDIT

SLOWER REPAYMENTS PUSH UP MORTGAGE BALANCES

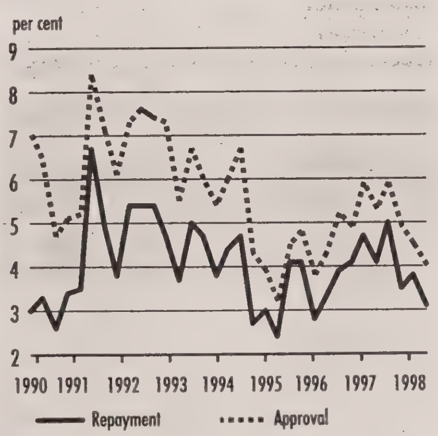
by Ali Manouchehri, Senior Economist - Capital Markets

Slower repayments and an active housing market helped raise outstanding mortgage credit by 1.5 per cent in the second quarter of 1998, to $380.1 billion from $374.6 billion in the previous quarter.

Slower mortgage repayments push up outstanding mortgage balances

Over the past twelve months, the share of outstanding mortgages represented by mortgage repayments slowed from an average of 5.0 per cent in the second quarter of 1997 to just over 3.0 per cent in the first quarter of this year. This reduction can be attributed to several factors, including the improvement of consumer confidence, which has led mortgagors to put their money into other priorities than accelerated mortgage payments, and low mortgage rates, which have eased the cost of carrying a mortgage.

Slower repayments lead to a higher mortgage balance



Sources: CMHC, Bank of Canada CMHC – MAC 1998

Active housing markets translate to new loans

During the past year, the growth of new mortgage lending eased somewhat. New mortgages accounted for only 4.0 per cent of outstanding mortgages in the first quarter of this year, compared with 6.0 per cent a year ago, in part as a result of lower prices and stable home sales in several urban centres. Nearly $15.1 billion of new mortgages were approved in the first quarter of 1998, down 0.1 per cent from the previous quarter. Although fewer

Continued on page 11

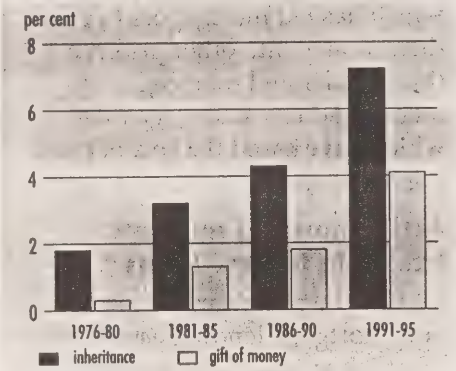
INHERITANCES HELPFUL TO THE HOUSING MARKET

by David Metzak, Senior Researcher, Gary J. MacDonald, Senior Economist, and Ali Manouchehri, Senior Economist, Capital Markets

Nearly one fifth of Canadian households have received an inheritance of at least $5,000, according to a recent study commissioned by CMHC.[1] The study, which analyzes data for several decades before 1996, forecasts that $2.7 billion a year in inheritances and cash gifts will find its way into the housing market over the next eight years.

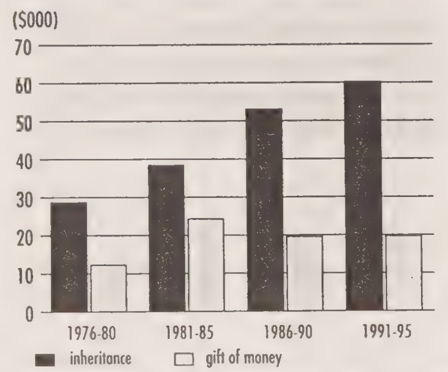
Today's senior citizens have more wealth to pass on to their families as gifts and bequests than any generation before them. A 1996 survey[2] found that over 7.2 per cent of sample households had received an inheritance, while 4.1 per cent had received a gift during the previous five years. The average inheritance was $60,200, and the average cash gift was $19,700. Almost 20 per cent of households surveyed had received inheritances or money gifts in excess of $5,000. How is this bounty being used, and how might it affect mortgage and housing markets?

More households receiving inheritances and money gifts



Source: FIRM Survey, September 1996. Clayton Research Associates Limited CMHC – MAC 1998

Average inheritance/money gift



Source: FIRM Survey, September 1996. Clayton Research Associates Limited CMHC – MAC 1998

A sense of scale

The size and importance of these transfers can be viewed along three dimensions: the size of the transfers and their intended uses, the share of the market covered, and a comparison of the impact of intergenerational transfers to other elements of the housing market.

While the amounts that will be transferred are substantial, especially from the view of individual households, they are relatively modest compared to overall measures of the housing market. For instance, the $896 million in intergenerational transfers to be spent annually on home purchases amounts to only 1.3 per cent of the size of the housing market estimated by the study. The growth in transfers spent on housing-related activities is forecast to be moderate as well, at $484 million per year.

The effect is considerably larger on renovation, where spending of $1,442 million is expected. This would comprise about 7.6 per cent of estimated 1996 renovation and repair spending of $19 billion. However, the expected increase, $269 million, represents only 1.4 per cent of renovation spending. This marginal increase would be unlikely to have any more of an impact on renovation markets than the small amount spent on home purchases has on that market.

Inheritances and money gifts: Highlights for 1996-2006 (in constant 1996 dollars):

- $12.7 billion per year
- $2.7 billion will be spent on housing, 25 per cent more than during the previous five years
- More than half of the money spent on housing, $1.4 billion per year, will be for renovations
- Financing of approximately 1.3 per cent of the housing market comes from inheritances and cash gifts
- An additional $0.9 billion will be used to pay down outstanding mortgages.

Direct spending impacts

The study estimates the direct impact of the transfers, based on the patterns of how such transfers were spent between 1986 and 1996. In essence, as significant as the effect may be for beneficiary households, the overall effect will be minor because the report estimates the

1 *"The Impact of Inheritances on the Housing and Mortgage Markets in Canada over the Next Ten Years" will be released by CMHC's Research Division later this year.*

2 *FIRM Residential Mortgage Survey, September 1996, Clayton Research Associates Ltd.*

ıverage transfer to be slightly over ;1,000.

Because inheritances tend to go to ›lder households, the emphasis on ·enovations and mortgage ›aydowns is understandable. Cash ;ifts, on the other hand, typically go o younger households, which are nore likely to be buying homes.

Between 1996 and 2006, the size of he average inheritance may actu- ılly decline slightly. Even if the total ımount of transfers increases as nore baby-boom households be- :ome recipients, the number of ·ecipients may increase by a greater ›ercentage than the amount of ransfers.

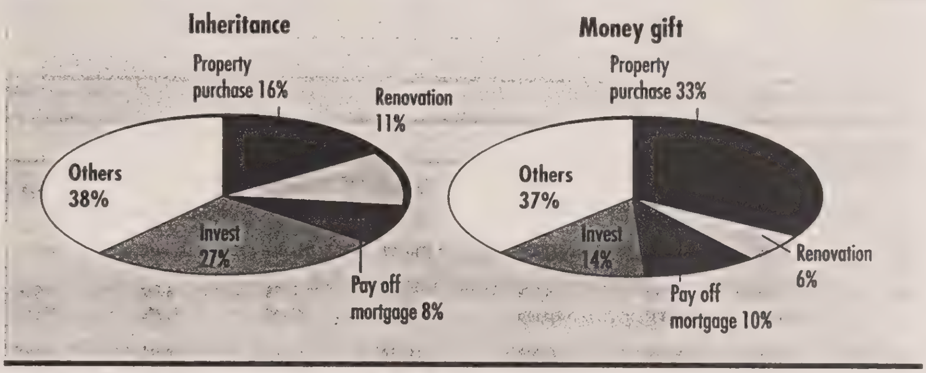
;econd-round spending effects

Vhile transferred funds may have a imited effect on housing markets, hose funds will result in additional ;pending. In some cases, the funds vill allow for leverage of existing ıssets. The primary example of this s where small transfers may pro- ›ide young households with down ›ayments to purchase first homes. This will increase both home sales ınd mortgage business. Similarly, a :ommon household objective is to ·educe debt. Paying down the nortgage will reduce a household's nonthly cash-flow requirements. Households will then be much more able to plan renovation and repair work on a pay-as-you-go basis.

The Final Word

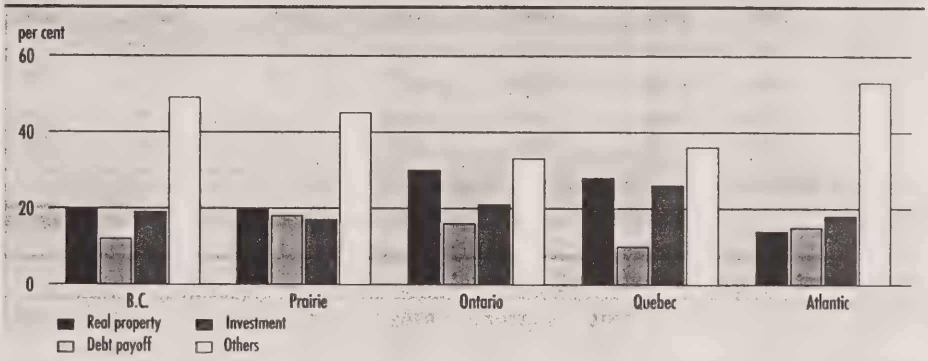
When all is said and done, gifts and bequests will be a positive factor in spending on housing and other items - for those households receiving them. But the sums are quite modest relative to housing markets and the overall effect is likely to be modest as well. ■

How individuals use inheritances and money gifts



Source: FIRM Survey, September 1996. Clayton Research Associates Limited CMHC – MAC 1998

Uses of inheritance: a regional perspective



Source: FIRM Survey, September 1996. Clayton Research Associates Limited CMHC – MAC 1998

orecast of gross flow of inheritances and money gifts (millions of 1996 constant dollars)

	Amount per year over 1996-2006	Amount as per cent of estimated market size	Increase over the previous five-year (1991-96) average	Increase as per cent of estimated market size
Average transfers	$12,700		$ 2,300	
Amount of transfers expected to be spent on housing	$2,666	no estimate of market size	$ 484	no estimate of market size
Home buying	$ 896	1.3	$ 154	0.2
Vacation or investment property	$ 329	no estimate of market size	$ 60	no estimate of market size
Home renovations	$1,442	7.6	$ 269	1.40
Mortgage paydowns	$ 931	0.3	$ 176	0.05

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	97Q2	97Q3	97Q4	98Q1	98Q2 e
TOTAL	349,746	365,416	363,043	367,978	370,889	374,546	380,144
% change	4.0	4.5	0.9	1.4	0.8	1.0	1.5
Banks	198,289	218,791	213,517	222,023	230,238	233,912	238,104
Trust Co.	42,118	33,720	37,664	31,494	26,028	25,167	24,748
Caisses & CO-OP	49,322	51,686	51,415	52,022	52,493	52,869	53,318
Life Ins. Co.	22,716	22,071	22,200	22,009	21,615	21,312	21,375
Pension Funds	7,724	7,983	8,092	8,030	7,860	7,892	8,032
Fin. & Loan	29,577	31,164	30,156	32,400	32,654	33,394	34,567

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

NHA and Conventional loans approved[1]

		1996	1997	97Q2	97Q3	97Q4	98Q1
TOTAL	$ millions	70,671	75,312	21,469	17,884	16,875	15,160
	Units	840,044	837,479	241,339	201,984	183,470	158,899
NHA	$ millions	29,767	31,375	9,055	7,278	6,720	7,037
	Units	360,802	353,626	104,174	80,768	75,296	75,542
Conventional	$ millions	40,904	43,937	12,414	10,606	10,155	8,123
	Units	479,242	483,853	137,165	121,216	108,174	83,357
By type of lender							
Banks	$ millions	51,284	57,424	16,264	13,781	13,014	11,661
	Units	581,320	602,491	171,215	149,438	132,319	113,562
Trust Co.	$ millions	8,021	7,335	2,226	1,690	1,340	1,214
	Units	89,032	80,406	24,301	18,683	14,519	12,654
Life Ins. Co.	$ millions	2,926	2,716	807	546	770	440
	Units	50,126	47,876	15,993	9,078	11,812	9,428
Others	$ millions	8,440	7,837	2,172	1,867	1,751	1,845
	Units	119,586	106,706	29,830	24,785	24,820	23,255

(1) Not Seasonally Adjusted

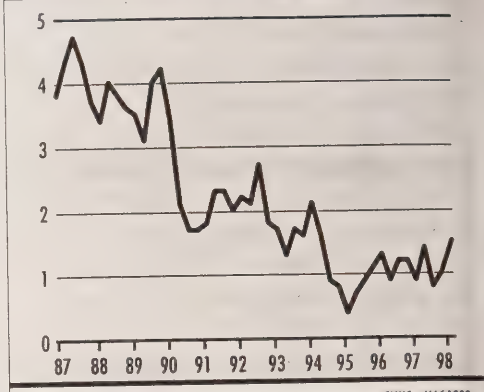
Source: CMHC. *CMHC – MAC 1998*

Mortgage rates (%) (Average of period)

	1996	1997	97Q2	97Q3	97Q4	98Q1	98Q2
1-Year Mortgage Rate	6.19	5.54	5.38	5.65	5.98	6.40	6.55
3-Year Mortgage Rate	7.33	6.56	6.75	6.50	6.57	6.70	6.80
5-Year Mortgage Rate	7.92	7.07	7.33	6.95	6.82	6.85	6.95

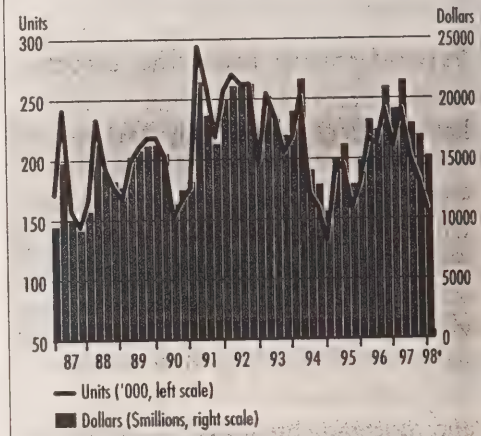
Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

Quarterly residential mortgage credit growth



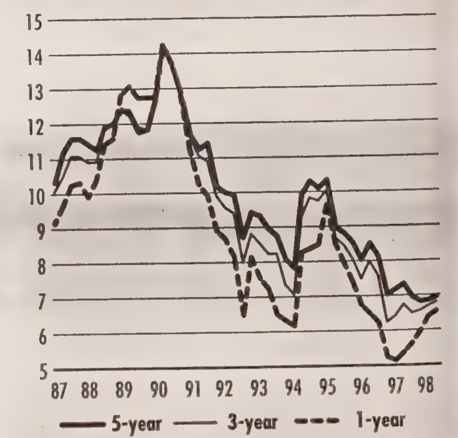
Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

NHA and Conventional approvals



Source: CMHC. *CMHC – MAC 1998*

Mortgage rates



Source: Bank of Canada. *CMHC – MAC 1998*

N O T E

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506. Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Jim Robertson, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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NHA MORTGAGE-BACKED SECURITIES

NHA MBS MARCHES ON

by Ali Manouchehri, Senior Economist - Capital Markets

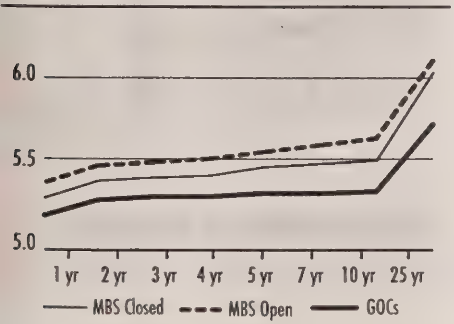
The NHA MBS market exhibited another strong performance in the second quarter of 1998, with $2,298.2 million in new issues. This performance strengthened its role as a major funding source in the Canadian housing finance system.

NHA MBS marched forward in the second quarter of 1998, with 66 new pools issued, amounting to $2,298.2 million. This followed a record $3,701.7 million in new issues in the previous quarter.

MBS as a major source of mortgage funding

Low return on term deposits since 1997 has limited the supply of term deposits as a source of funds for mortgages and led to the utilization of alternative funding mechanisms, including MBS. Portfolio management considerations by several financial institutions and increasing reliance on longer-term mortgages have also fostered a favourable environment for MBS growth since last year. The ratio of NHA MBS issued to new mortgage initiation jumped to 24.4 per cent last quarter from 9.2 per cent in the first quarter of 1998, reflecting the rising profile of NHA MBS in the mortgage market.

NHA Mortgage-Backed Securities Yield Analysis – *June 30, 1998*



Source: Nesbitt Burns. CMHC – MAC 1998

Single family pools account for 82 per cent of new issues

The recent trend favouring single-family residential pools continued last quarter. Over 63 per cent of the pools issued were single-residential pools, totaling $1,883.5 million and representing 82 per cent of all issued amounts. Issues of pool 970, the single residential pool with no penalty interest payments but with indemnity, constituted 93.4 per cent of the single residential pools in this quarter.

In the second quarter of 1998, both multiple and social housing pools recovered from the decline of the previous quarter. Issues of multiple residential pools rose more than fourfold, to $53.5 million from $10.0 million in the previous quarter. Issues of social housing pools jumped two and a half times, to $234.1 million. Mixed pools, totaling $127.1 million, were up by 48.1 per cent from the previous quarter as well.

MBS-Government of Canada bond (GOC) spreads for all pool types rose by 9-13 basis points from levels in the previous quarter.

MBS highlights - Second quarter of 1998

New issues:

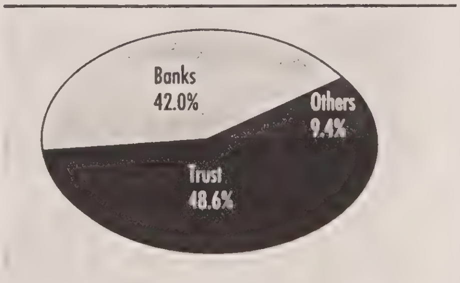
- 66 pools for $2,298.2 million
- 42 single family pools amounting to $1,883.5 million
- issues of social housing were up to $234.1 million; multiple residential pools were up to $53.5 million

MBS- bond five-year spreads were up 9-13 basis points for various pools from the last quarter

Trusts edged the chartered banks in using NHA MBS

Reversing a trend in market share that started several years ago, trusts were the source of more new NHA MBS issues than were chartered banks, 48.6 per cent compared to 42.0 per cent. Life insurance firms accounted for 3.5 per cent of new issues, while credit unions issued 1.6 per cent of the new issues last quarter. ■

MBS amounts issued by pool type



Source: CMHC CMHC – MAC 1998

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Montréal	Hôtel Westin Mont-Royal	November 19	Jean Laferrière	(514) 496-8564
Sherbrooke	To be announced (TBA)	TBA	Hélène Dauphinais	(819) 564-5622
Hamilton	TBA	TBA	Helen Hutton	(905) 572-7100 ext. 241
Kitchener	TBA	TBA	Ken Sumnall	(519) 438-1737 ext. 4215
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NHA Mortgage-Backed Securities Second Quarter Issues

April to June 1998

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: April 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-018	FIRST HERITAGE SAVINGS CR.UN.	2,723,237.47	5.375	2003-04-01	6.22	22.35
96-412-960	PAFCO INSURANCE COMPANY	7,000,499.27	5.300	2003-04-01	6.78	23.84
96-412-978	M.R.S. TRUST COMPANY	7,466,380.38	5.375	2003-04-01	6.32	22.26
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-806	PEOPLES TRUST COMPANY	8,413,702.09	5.125	2003-04-01	5.93	22.48
96-500-772	PEOPLES TRUST COMPANY	7,638,450.00	5.750	2018-04-01	6.75	25.00
96-500-780	THE EQUITABLE TRUST COMPANY	10,128,832.83	5.300	2003-04-01	6.10	22.59
96-500-814	THE EQUITABLE TRUST COMPANY	48,064,670.00	5.450	2010-04-01	5.98	25.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-018	M.R.S. TRUST COMPANY	4,870,629.57	5.500	2008-04-01	6.65	15.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP)						
96-702-261	HONGKONG BANK OF CANADA	13,043,308.25	5.250	2003-03-01	6.20	22.26
96-702-279	HONGKONG BANK OF CANADA	3,117,965.25	5.000	2001-04-01	5.90	23.47
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-036	NATIONAL BANK OF CANADA	24,389,737.81	5.375	2003-02-01	6.03	11.45
97-001-044	NATIONAL BANK OF CANADA	38,089,240.53	5.375	2003-02-01	6.57	21.67
97-001-028	CIBC MTGS INC.(FIRSTLINE MTG)	96,593,011.58	5.350	2003-04-01	6.43	23.25
97-001-051	BANK OF MONTREAL	91,330,300.80	5.200	2001-06-01	7.24	20.00
97-001-069	THE EQUITABLE TRUST COMPAN	9,850,434.01	5.300	2003-04-01	6.24	22.33
SOCIAL HOUSING POOLS						
99-007-692	TORONTO-DOMINION BANK	48,415,284.92	5.625	2028-04-01	6.23	30.00
99-007-700	TORONTO-DOMINION BANK	14,199,240.00	5.250	2003-04-01	5.76	35.00
99-007-718	TORONTO-DOMINION BANK	4,135,962.30	4.875	2003-06-01	5.47	30.00
99-007-726	BANK OF MONTREAL	53,670,244.53	5.500	2028-03-01	6.01	29.92
MONTH OF ISSUE: May 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-026	PAFCO INSURANCE COMPANY	6,196,994.56	5.350	2003-05-01	6.76	23.44
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-822	THE EQUITABLE TRUST COMPANY	11,153,404.60	5.450	2008-05-01	6.13	24.83
96-500-830	PEOPLES TRUST COMPANY	12,434,963.72	5.125	2003-05-01	6.02	21.61
96-500-848	PEOPLES TRUST COMPANY	8,649,884.17	5.250	2008-05-01	6.01	26.80
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-026	PEOPLES TRUST COMPANY	2,645,074.56	4.875	2002-02-01	6.50	30.92
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-287	MFQ-VIE CORPORATION D'ASSURANC	4,001,943.45	5.450	2002-09-01	6.60	23.05
96-702-295	HONGKONG BANK OF CANADA	15,291,566.32	5.250	2003-04-01	6.27	22.05
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-077	CANADA TRUSTCO MORTGAGE CO.	14,225,942.51	5.000	2001-06-01	6.24	11.23
97-001-085	CANADA TRUSTCO MORTGAGE CO.	76,424,233.04	5.000	2001-10-01	7.76	11.05
97-001-101	CANADA TRUSTCO MORTGAGE CO.	103,560,536.57	5.000	2002-03-01	6.58	10.79
97-001-119	CANADA TRUSTCO MORTGAGE CO.	78,779,022.21	5.000	2002-09-01	6.61	10.96
97-001-127	CANADA TRUSTCO MORTGAGE CO.	96,558,509.03	5.000	2003-03-01	6.27	11.15
97-001-135	CANADA TRUSTCO MORTGAGE CO.	8,293,850.59	5.000	2001-03-01	6.02	20.52
97-001-143	CANADA TRUSTCO MORTGAGE CO.	21,103,231.43	5.000	2001-06-01	6.13	19.46
97-001-150	CANADA TRUSTCO MORTGAGE CO.	43,537,311.83	5.000	2001-10-01	7.72	19.30
97-001-176	CANADA TRUSTCO MORTGAGE CO.	55,974,008.44	5.000	2002-03-01	6.50	19.47
97-001-184	CANADA TRUSTCO MORTGAGE CO.	69,124,478.91	5.000	2002-09-01	6.54	19.65
97-001-192	CANADA TRUSTCO MORTGAGE CO.	109,600,555.56	5.000	2003-03-01	6.21	20.01
97-001-200	THE EQUITABLE TRUST COMPANY	17,306,852.11	5.550	2008-05-01	6.51	21.94
97-001-218	THE EQUITABLE TRUST COMPANY	7,505,558.20	5.875	2023-05-01	6.90	21.78
SOCIAL HOUSING POOLS						
99-007-734	TORONTO-DOMINION BANK	16,401,036.12	4.875	2003-05-01	5.44	33.39
99-007-742	TORONTO-DOMINION BANK	50,110,492.37	5.375	2028-05-01	5.97	30.00
99-007-759	TORONTO-DOMINION BANK	3,087,909.92	4.875	2003-06-01	5.48	18.52

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: June 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-034	PAFCO INSURANCE COMPANY	8,415,461.87	5.350	2003-06-01	6.78	23.69
96-413-042	FIRST HERITAGE SAVINGS CR.UN.	6,622,344.06	5.375	2003-06-01	6.19	22.68
96-413-075	VANC. CITY SVGS. CREDIT UNION	27,357,440.78	5.350	2003-06-01	6.15	22.40
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-798	MARITIME LIFE ASSURANCE CO.	13,372,836.92	5.000	2003-06-01	5.81	17.78
96-500-855	THE EQUITABLE TRUST COMPANY	4,090,350.00	5.750	2023-06-01	6.30	25.00
96-500-863	THE EQUITABLE TRUST COMPANY	3,135,792.24	5.625	2013-06-01	6.42	20.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-600-994	MARITIME LIFE ASSURANCE CO.	10,303,417.24	5.125	2008-06-01	6.09	20.81
96-601-000	MARITIME LIFE ASSURANCE CO.	25,518,476.70	4.625	2000-11-01	8.35	20.56
96-601-034	PEOPLES TRUST COMPANY	3,256,595.00	4.750	2001-06-01	6.05	20.00
96-601-042	PAFCO INSURANCE COMPANY	6,871,005.18	5.500	2008-06-01	6.70	23.59
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-303	HONGKONG BANK OF CANADA	16,704,810.68	5.000	2003-05-01	6.19	21.69
96-702-311	HONGKONG BANK OF CANADA	5,804,418.93	5.000	2001-06-01	6.05	22.34
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-226	NATIONAL BANK OF CANADA	57,650,991.90	5.375	2002-08-01	6.85	10.94
97-001-234	NATIONAL BANK OF CANADA	227,665,494.93	5.375	2002-08-01	6.78	20.74
97-001-242	NATIONAL BANK OF CANADA	61,362,028.72	5.375	2003-02-01	6.56	11.00
97-001-259	NATIONAL BANK OF CANADA	178,433,312.38	5.375	2003-02-01	6.52	21.36
97-001-267	CANADA TRUSTCO MORTGAGE CO.	234,992,594.95	5.000	2003-06-01	6.26	20.99
97-001-275	CANADA TRUSTCO MORTGAGE CO.	5,467,555.20	5.000	2002-02-01	6.41	10.85
97-001-283	CANADA TRUSTCO MORTGAGE CO.	7,325,593.99	5.000	2002-02-01	6.38	19.41
97-001-291	CANADA TRUSTCO MORTGAGE CO.	3,694,131.52	5.500	2002-09-01	7.13	19.34
97-001-309	CANADA TRUSTCO MORTGAGE CO.	2,772,755.37	5.000	2002-03-01	6.88	18.87
97-001-317	THE EQUITABLE TRUST COMPANY	11,425,283.24	5.450	2003-06-01	6.19	23.17
97-001-325	THE EQUITABLE TRUST COMPANY	6,741,100.34	5.600	2008-06-01	6.48	21.75
SOCIAL HOUSING POOLS						
99-007-767	TORONTO-DOMINION BANK	44,098,429.75	5.500	2028-06-01	6.12	30.00

REITS AND THE REAL ESTATE RESURRECTION

by Hal Irwin, Economist

As Canadian real estate becomes increasingly securitized and more properties are held through the stock market, the real estate investment trust (REIT) has become far more familiar. In this article, MMT examines this often misunderstood financial instrument.

REITs can be thought of as closed-end real estate funds, the fund units purchased by investors representing direct ownership in the portfolio of properties held by the trust. In contrast, real estate stocks are stakes in a real estate company whose revenues may be derived from much more than the properties themselves, such as management and development activities. Units are listed on a stock exchange, where they can be traded with relative ease.

Canadian REITs appeared in their current form in 1993, assembled from the remains of a number of real estate mutual funds which had been badly mauled during the commercial property market collapse. Caught short of cash as investors scrambled for the door, some of these funds chose to freeze redemptions and rapidly converted to closed-end real estate investment trusts to improve their liquidity. After a few years, the Canadian REIT family has grown from three publicly-traded trusts to 14, their market capitalization swelling from $113 million in 1993 to over $4.5 billion by mid 1998.

Largest Canadian REITs*

	Market Cap. $millions
RioCan	747.30
CREIT	423.30
H&R REIT	405.90
RealFund	384.40
CPL REIT	376.00

*as of 13 July 1998
Source: CIBC Wood Gundy Real Estate

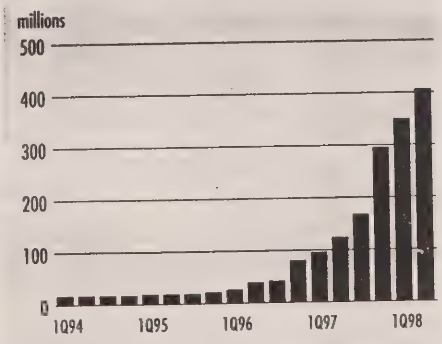
What renewed the public's affection for real estate? Generally low interest rates allowed REITs to rise as retail investors looked for higher yields than were being offered in the market by other fixed-income alternatives. Bargain-basement financing meant REITs were acquiring properties with yields much higher than the cost of holding them.

Who benefits and how?

Created with the smaller investor in mind, REITs allow tax-favoured income participation in a diversified portfolio of institutional-grade real estate assets with relatively good liquidity. The trust indenture usually lowers risk by limiting debt to between 50 and 60 per cent of the book value of trust assets plus accumulated depreciation.

Not all the benefits accrue to the investor. REITs also facilitate the restructuring of real estate companies and improve liquidity for lenders who may be carrying more commercial real estate loans and ownership positions than they would like. More broadly, the rise in public investment in the real estate market, in large part due to REITs, has raised the industry's accountability requirements and made the market more efficient.

Number of REIT units outstanding



*as of 30 June 1998
Source: CIBC Wood Gundy Real Estate CMHC–MAC 1998

But there may still be room for improvement. The issue of unlimited liability remains a thorny aspect of REIT investing, and may have discouraged some investors, particularly large institutions. The Canadian Institute of Public Real Estate Companies, which represents publicly traded and private real estate corporations, is currently lobbying for regulatory change that would permit REITs to limit unitholder liability, making them more like those available in the U.S. CIPREC believes the change would result in a substantive increase in size of the real estate market and provide the industry with the volumes of equity financing required to further recapitalize the industry and pay down existing debt.

In the interim, efforts have been made to lessen the potential liability of unitholders. Along with maintaining low debt levels, contracts entered by the REIT usually provide for recourse only to the trust, they have insurance policies to protect both the trust and the unitholders, and they conduct extensive environmental reviews of properties prior to purchase. Cautious observers, however, maintain that while such precautions mitigate against the liability risk, they don't remove it.

Another contentious issue is that many of Canada's REITs are managed by advisors external to the REIT, a structure that may not align the interests of investors with those of the managers.

The REIT as an investment instrument

REITs use the pool of capital received from investors to acquire a portfolio of real estate. Typical holdings may include office complexes, shopping malls, hotels, industrial properties, nursing homes, or apartment buildings. The yields from REITs, consisting of income generated by the properties and any realized capital gains, are also tax-advantaged. Tax-deductible capital cost allowance, or depreciation, claimed by the trust is passed through to the investor, allowing for a portion of the distribution received to be considered a nontaxable return of capital. The investor can enjoy this tax deferral until the REIT units are sold, whereupon any capital gains are subject to taxation. By paying out at least 95 per cent of their taxable income to unitholders as dividends, among other requirements, these investment trusts avoid paying corporate income tax.

A financial hybrid, a REIT has similarities to both stocks and bonds. While it has the potential for both capital appreciation and loss, it also provides income but does not mature with a repayment of principal. It can provide the long-term investor with an attractive yield at relatively low risk, and an opportunity to diversify into income-generating commercial real estate.

What risks are associated with REITs? To begin with, investors would be hurt by interest rate increases. But interest rates usually rise with inflation, and inflation could result in higher asset values for the properties held in the REIT. An economic slide that would adversely affect the ability of tenants to pay their rent is also a risk. Then, there is a stock market downturn. While some see real estate as an industry independent of the stock market, the REIT market remains dependent on the continuing inflow of capital through unit purchases. If the broader market began to trend downward, the REIT market could go with it.

Market performance and outlook

Following the lead of the U.S. industry, where investor enthusiasm over the past few years pumped up REIT unit values, Canadian REITs have rocketed ahead, fueled by low interest rates and rising expectations for real estate sector returns. According to CIBC Wood Gundy, REITs have returned an average 25.5 per cent (unweighted, excluding IPOs) annually since 1995, outperforming the TSE 300 composite and the TSE real estate subindex. Remember, though, this run-up began from a heavily depressed initial position. While the REIT market has softened from highs at the beginning of the year, industry fundamentals remain strong.

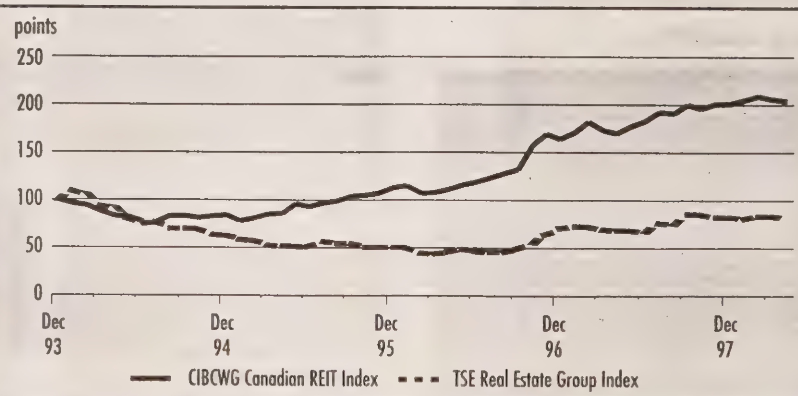
Some industry insiders believe REITS may not be able to maintain current cash distribution levels through the medium-to-long term. As REIT managers compete with other investors, property prices are being pushed up at the expense of returns, making it increasingly difficult for REITs to make acquisitions that will immediately increase distribution to investors. This may signal a rise in construction as RIETs move into development. But an increasing supply may pressure occupancy rates and restrict the ability of landlords to raise rents, ultimately lowering future distributions. The decline in REIT unit values may also mean they will find it harder to raise cash for acquisitions, which could slow the industry's earnings growth rate.

However, there are factors which could aid another market advance. U.S. investors noticing the weak Canadian dollar and the lag in our real estate cycle relative to their own could give our market a boost by investing in it. There is also the trend that emerged this spring of REITs asking their unitholders to approve higher levels of permissible debt. With continuing low interest rates and the current difficulties raising funds in the equity market, higher leverage would allow REITs to buy more property as real estate prices continue to rise.

What kind of future is there for REITs? While some experts expect their number and capital value to

Continued on page

Comparative performance: REITs vs. TSE real estate subindex



*as of June 30, 1998
Source: CIBC Wood Gundy Real Estate

CMHC–MAC 199

continue increasing, others see a market ready for merger activity. It has also bee predicted that REITs will ultimately be absorbed by real estate companies. Time will tell which experts are right. ■

new mortgages were issued in recent months, the level of new home sales and mortgages has remained high.

Mortgage lending will continue to expand

Total mortgage credit outstanding is expected to increase at a sustainable pace over the next few months. The dampening impact of stable home sales, lower prices and higher short-term mortgage rates will be more than offset by slow repayments and low long-term mortgage rates and will result in moderate mortgage credit growth. This will help calm concerns over the high rate of mortgage indebtedness growth that has emerged since the 1980s.

Mortgage market structure will remain stable

Recent trends in market share by institution type will continue, with chartered banks accounting for over 75.0 per cent of mortgage initiation and 62.6 per cent of the outstanding mortgage loans. Trusts captured 8.0 per cent of new residential mortgage business in the first quarter, while their share of outstanding mortgage loans nudged down to 6.5 per cent. The market share of new mortgages initiated by life insurance companies also edged down, to 2.9 per cent. These companies now hold 5.6 per cent of outstanding mortgage loans. ■

MBS STATISTICS

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

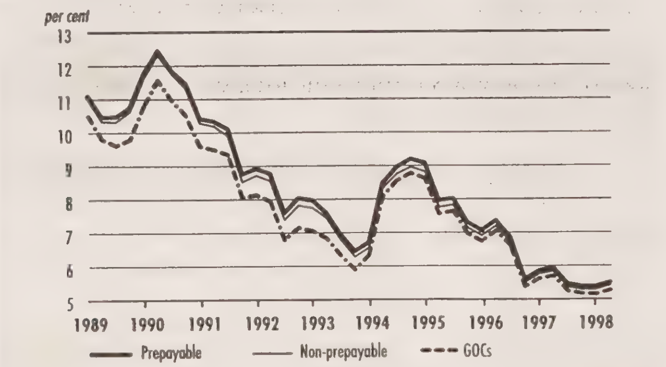
		1996	1997	97Q2	97Q3	97Q4	98Q1	98Q2
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	13,968.4	14,787.4	14,319.6	14,870.5	14,787.4	17,404.2	18,300.3
	Units	1,370	1,251	1,332	1,286	1,251	1,233	1,223
Residential, single (with PIP) (1)	$million	5,607.1	2,961.7	4,123.1	3,403.0	2,961.7	2,835.5	2,457.5
	Units	740	581	684	632	581	542	517
Residential, single (no PIP)	$million	997.7	1,383.6	1,232.7	1,362.5	1,383.6	1,397.2	1,377.5
	Units	131	191	165	178	191	200	204
Residential, single (no PIP with indemnity) (2)	$million		4,371.0	2,172.5	3,829.0	4,371.0	7,525.0	9,042
	Units		60	18	40	60	96	125
Residential, multiple	$million	1,385.5	1,580.3	$1,480.1	$1,446.9	$1,580.3	$1,538.3	$1,522.6
	Units	59	87	71	75	87	87	91
Social Housing	$million	5,730.6	4,048.6	$4,978.6	$4,447.5	$4,048.6	$3,590.7	$3,268.3
	Units	404	279	347	311	279	249	218
Mixed	$million	247.5	442.5	$332.7	$381.4	$442.5	$517.6	$632.1
	Units	36	53	47	50	53	59	68
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,722.7	6,949.0	1,144.4	2,301.7	1,268.7	3,701.7	2,298.2
	Units	154	238	50	61	70	65	66
Residential, single (with PIP)	$million	522.2	532.8	$52.4	$126.4	$136.1	$167.1	$65.8
	Units	37	43	8	11	13	10	7
Residential, single (no PIP)	$million	371.7	679.8	$209.1	$203.5	$132.8	$88.2	$58.0
	Units	53	60	16	13	13	9	[illegible]
Residential, single (no PIP with indemnity) (2)	$million		4576.7	594.2	1,631.2	629.8	3,283.4	1,759.7
	Units		60	8	19	20	36	29
Residential, multiple	$million	254.9	329.2	$83.5	$28.6	$151.7	$10.0	$53.5
	Units	21	29	7	5	12	1	[illegible]
Social Housing	$million	446.4	568.3	$136.4	$244.7	$144.5	$67.0	$234.[illegible]
	Units	31	21	5	8	5	2	8
Mixed	$million	127.5	262.2	$68.8	$67.2	$73.7	$85.8	$127.[illegible]
	Units	12	25	6	5	7	7	1[illegible]
YIELDS (5-YAR MATURITY, %)								
MBS Prepayable (with PIP)		6.73	5.66	5.94	5.47	5.39	5.39	5.5[illegible]
MBS Prepayable (no PIP)		6.77	5.73	6.02	5.53	5.46	5.47	5.5[illegible]
MBS Non-prepayable		6.59	5.56	5.84	5.36	5.29	5.29	5.4[illegible]
MBS MMUF		6.64	5.62	5.88	5.42	5.37	5.38	5.4[illegible]
Mortgage rates		7.92	7.07	7.33	6.95	6.82	6.85	6.9[illegible]
GOCs		6.44	5.43	5.70	5.24	5.17	5.15	5.2[illegible]
SPREADS OVER GOC (5-YEAR MATURITY,%)								
Prepayable (with PIP)		0.28	0.23	0.24	0.23	0.22	0.23	0.2[illegible]
Prepayable (no PIP)		0.33	0.30	0.32	0.30	0.29	0.31	0.2[illegible]
Non-prepayable		0.14	0.13	0.14	0.12	0.12	0.13	0.1[illegible]
MMUF		0.20	0.19	0.18	0.18	0.20	0.23	0.2[illegible]
Mortgage rates		1.48	1.64	1.63	1.71	1.65	1.70	1.6[illegible]

(1) PIP stands for Penalty Interest Payments (2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.
Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC

CMHC – MAC 19

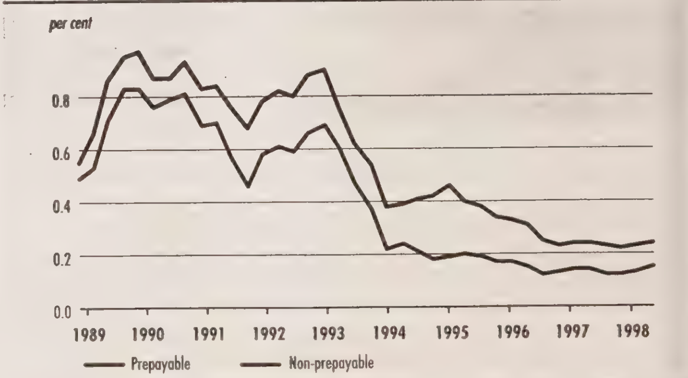
Selected interest rates
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 1998

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 19

CANADA MORTGAGE AND HOUSING CORPORATION

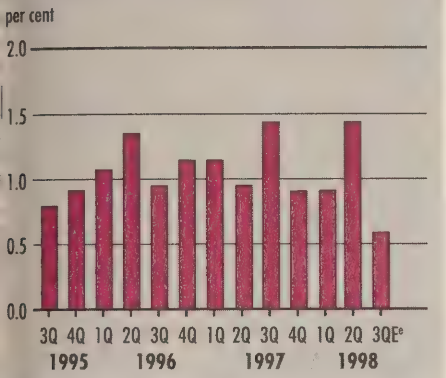
CMHC MORTGAGE MARKET

TRENDS

MARKET ANALYSIS CENTRE

FOURTH QUARTER 1998

Residential mortgage credit growth*
(from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC CMHC – MAC 1998

Market share of residential mortgage credit* (%)

	3Q97	4Q97	1Q98	2Q98	3Q98[e]
Banks	60.3	62.1	62.6	62.9	63.6
Trusts	8.6	7.0	6.7	6.5	5.9
Caisses & Co-op	14.1	14.2	14.1	14.0	13.9
Life	6.0	5.8	5.7	5.6	5.6
Pension Funds	2.2	2.1	2.1	2.1	2.1
Fin. & Loan	8.8	8.8	8.8	8.9	9.0

e: estimate
*Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC CMHC – MAC 1998

INSIDE

MORTGAGE CREDIT

MORTGAGE CREDIT GROWTH SLOWS

by Joel Starkes, Economist

Third quarter growth in outstanding mortgage credit was held below one per cent for the second time this year, expanding only 0.6 per cent to $381.3 billion, following a 1.4 per cent increase to $379.0 billion in the previous quarter.

Lacklustre housing markets and higher rates set the tone

During the third quarter, the housing sector could not shrug off a sharp decline in consumer confidence, while rising mortgage rates prompted many home owners to increase repayments. The result was the slowest growth in mortgage credit since the second quarter of 1995.

Mortgage repayments in the second and third quarters exceeded four per cent of outstanding mortgages. Borrowers were prompted to increase repayments with mortgage rates threatening to go even higher. However, the move of the U.S. Federal Reserve to cut key rates near the end of the quarter had ripple effects here, quickly reversing the upward trend in domestic rates. As well, portfolio considerations by households can explain some of the increase in repayments, as they decided to allocate capital towards debt repayment rather than subject it to the increased volatility in equity markets. In fact, after peaking above a record-level 7600 in April, the Toronto Stock Exchange (TSE) 300 Composite Index had fallen 26.0 per cent by the end of September.

The slowdown in housing activity precipitated an expected slowdown in new mortgages from 5.5 per cent of outstanding mortgages in the previous quarter to 4.7 per cent in the latest, representing a decline of nearly $3 billion in approved mortgages. The bulk of this drop was largely attributed to slowing new home construction, reflected by the fall in housing starts and stable new home prices. This suggests a sharp decline in the value of new construction, which typically accounts for 35 per cent of the value of mortgage approvals.

Mortgage credit to exit 1998 on a stronger note

Positive growth in resales for the first time in more than a year and fewer repayments will increase the pace of mortgage credit expansion in the fourth quarter. Resales should get a boost from the sudden change in mortgage rate direction through September and early October, when three and five year rates were cut 80-95 basis points. As well, the stock market rebound should revert household savings back into equities and dampen the growth in mortgage repayments witnessed in the last six months. ■

LENDERS' OUTLOOK 1999

Late in October, Mortgage Market Trends spoke with senior executives at two of Canada's leading lending institutions — Christian Findlay, Vice-President, Residential Mortgages, Royal Bank of Canada, and Bob Tillmann, Vice-President, Secured Lending, Canada Trust. In this interview, they share their views on the mortgage market outlook and the key issues mortgage lenders will face in the coming year.

MMT: What will be the impact of recent global financial turmoil on the mortgage market in 1999. Will there be credit tightening? If so how will this affect potential mortgagors. How low or high will the one- and five-year closed mortgage rates be next year?

Christian Findlay: As North American economic growth decelerates in 1999, interest rates, particularly short-term rates, are headed down. But we don't think the financial turmoil is over. In fact, the probability of occasional interest rate spikes is high, especially in Canada given our weak currency. This could sharply reduce consumer confidence, which would have a dampening effect on the mortgage market.

While we don't see a credit crunch coming in Canada, there will likely be a tightening of mortgage credit in markets where house prices are expected to decline, particularly British Columbia, and where significant price increases may not be sustained such as Alberta.

In terms of interest rates, we see the yield curve steepening. The United States could lower short-term interest rates by at least another 50 basis points before the end of this year, and the Bank of Canada would likely follow, assuming that the Canadian dollar holds.

At the long end interest rates have likely hit bottom. So we see long-term bond yields moving up by 25 to 50 basis points between now and the end of 1999.

Bob Tillmann: North American economic factors have resulted in a flatter yield curve but rates, particularly longer-term ones, remained close to the historical lows in Canada. We see this trend continuing with housing affordability remaining high for the consumer. We don't see credit tightening being a factor in the personal lending market. However, customers' perception of their financial situation is likely to be a more significant driver of the mortgage market in 1999.

We also see more potential for short-term rates to fall further than long-term rates. Our forecasted range for the one-year rate in 1999 is between 5 1/2 and 7 percent. For the five-year rate, we expect a tighter range of 6 3/4 to 7 1/2 percent.

MMT: How will mortgage-lending competition intensify in 1999? Will the greatest efficiencies arise in mortgage initiation, funding or servicing next year?

The greatest efficiency improvements will arise in servicing and initiation. There is great opportunity and great need to improve customer servicing around the mortgage product and mortgage lending.

—Bob Tillmann

Bob Tillmann

Bob Tillmann: The biggest factor that will drive competition in 1999 will be low growth in the new housing market or the mortgage market generally. Today, we have a very active and competitive market that is going to continue, and If you've got relatively low growth in that market, competition will only intensify.

The greatest efficiency improvements will arise in servicing and initiation. There is great opportunit[y] and great need to improve custome[r] servicing around the mortgage product and mortgage lending. Wit[h] initiations, the customer will continue to see more choice in ways of accessing their mortgage *needs*.

Christian Findlay: We also expect mortgage competition to intensify in 1999, primarily because demand in the housing market is expected to soften. Over the past three months, the savings rate has turned negative, and real disposable income hasn't recovered yet from the steady decline we saw through the beginning of this decade. So consumer spending in general, and housing market activity especially, is likely to slow considerably next year.

We are also likely to see the arrival of new players, particularly from the United States just as housing demand is slowing down. That will also contribute to a much more competitive environment. The U.S. players are likely to enter the market with more stripped-down mortgage products (fewer options for clients but at a lower price). As a result, we may see lending institutions beginning to offer consumers more of a menu of options; like the U.S. model, where each option is individually priced.

Bob Tillmann: This is a likely scenario, although I'm not as convinced that the U.S. players are going to enter the market in a significant way next year. The very competitive marketplace we have in mortgage financing and the good options our products offer consumers have likely precluded the U.S. players from trying to pursue the Canadian mortgage market in the past. So I don't see a significant effort in terms of trying to access the prime market in a big way without at least testing the Canadian consumer's appetite for the U.S. product.

MMT: What are the trends in mortgage initiation and mortgage renewal terms?

Christian Findlay: Right now, on new mortgages, 75 percent of our clients choose five-year terms or greater for security and payment stability, with most of those choosing the five-year term. On renewals, about two thirds of our clients choose the one-year term or less which reflects consumers' confidence in their ability to withstand rate movements. But the term selection on renewals is much more volatile, shortening when rates fall and lengthening significantly when rates increase.

MMT: Do you foresee any changes in the way mortgages are initiated?

Bob Tillmann: Customers can expect to see more points of distribution, so convenience and service will improve in mortgage initiations. It will come from all players in the financial services business. They'll develop new channels, such as strategic alliances and partnerships, that will create opportunities to generate mortgage business and provide better service for the consumer.

Key success factors for lenders in 1999:

- *One will be our focus on the relationships we have with our clients.*
- *The second point, both on the origination side and on the servicing side, will be to keep costs to a minimum and to implement new technology.*
- *The third key success factor will be creating alliances and partnerships.*

—Christian Findlay

Christian Findlay

MMT: If the yield curve remains flat and mortgage rates fall in 1999, how will this impact your approach to customers?

Christian Findlay: If the yield curve remains flat and rates fall, we would likely see more new buyers and renewers choosing five-year terms. We would also see an increased appetite for 7-year and 10-year products because there would really be no premium to them for buying the insurance of locking in a long-term mortgage rate. If rates were to fall significantly from where they are now, the opportunity to lock in for the long term a rate that's even lower than the historical lows to date would be a real bargain.

But I think we're more likely to see a steepening of the yield curve in 1999 with short-term rates falling more from where they are now. In the renewal market, we'll probably see more renewers going short, so they can save money in the short term.

MMT: How does the risk of an economic downturn impact your strategies?

Bob Tillmann: We would have to look at trends in various key markets in Canada. If house prices were

Continued on page 6

INDICATORS OF MORTGAGE LENDING ACTIVITY

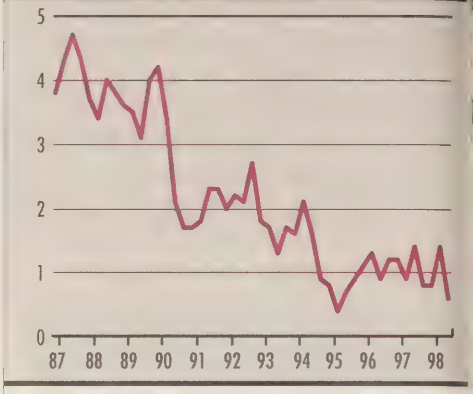
Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	97Q3	97Q4	98Q1	98Q2	98Q3 [e]
TOTAL	349,746	365,408	367,947	370,887	373,872	378,975	381,302
% change	4.0	4.5	1.4	0.8	0.8	1.4	0.6
Banks	198,289	218,791	222,023	230,238	233,912	238,302	242,381
Trust Co.	42,118	33,712	31,463	26,028	25,173	24,799	22,423
Caisses & CO-OP	49,322	51,686	52,023	52,493	52,866	53,128	53,137
Life Ins. Co.	22,716	22,072	22,009	21,615	21,183	21,252	21,249
Pension Funds	7,724	7,983	8,029	7,860	7,851	7,950	7,888
Fin. & Loan	29,577	31,164	32,400	32,653	32,886	33,543	34,223

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

Quarterly residential mortgage credit growth (%)



Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

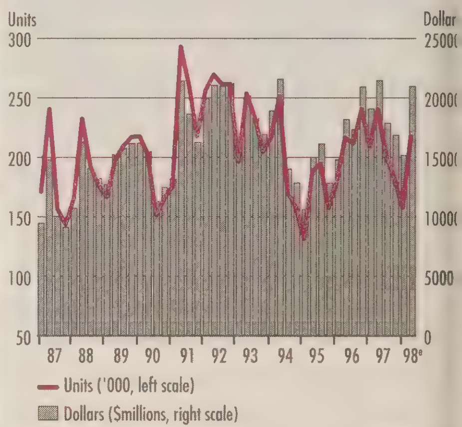
NHA and Conventional loans approved[1]

		1996	1997	97Q3	97Q4	98Q1	98Q2
TOTAL	$ millions	70,671	75,312	17,884	16,875	15,160	20,967
	Units	840,044	837,479	201,984	183,470	158,899	218,671
NHA	$ millions	29,767	31,375	7,278	6,720	7,037	9,452
	Units	360,802	353,626	80,768	75,296	75,542	101,490
Conventional	$ millions	40,904	43,937	10,606	10,155	8,123	11,515
	Units	479,242	483,853	121,216	108,174	83,357	117,181
By type of lender							
Banks	$ millions	51,284	57,424	13,781	13,014	11,661	16,244
	Units	581,320	602,491	149,438	132,319	113,562	160,777
Trust Co.	$ millions	8,021	7,335	1,690	1,340	1,214	1,799
	Units	89,032	80,406	18,683	14,519	12,654	19,800
Life Ins. Co.	$ millions	2,926	2,716	546	770	440	431
	Units	50,126	47,876	9,078	11,812	9,428	8,224
Others	$ millions	8,440	7,837	1,867	1,751	1,845	2,493
	Units	119,566	106,706	24,785	24,820	23,255	29,870

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1998*

NHA and Conventional approvals



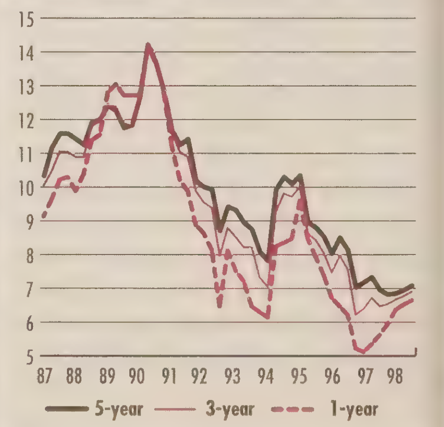
Source: CMHC. *CMHC – MAC 1998*

Mortgage rates (%) (Average of period)

	1996	1997	97Q3	97Q4	98Q1	98Q2	98Q3
1-Year Mortgage Rate	6.19	5.54	5.65	5.98	6.40	6.55	6.68
3-Year Mortgage Rate	7.33	6.56	6.50	6.57	6.70	6.80	6.93
5-Year Mortgage Rate	7.92	7.07	6.95	6.82	6.85	6.95	7.08

Sources: Bank of Canada; CMHC. *CMHC – MAC 1998*

Mortgage rates (%)



Source: Bank of Canada. *CMHC – MAC 1998*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506. Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Colin Mills, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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NHA MORTGAGE-BACKED SECURITIES

NHA MBS TAKES A BREATHER

by Joel Starkes, Economist

The NHA MBS market took a breather in the third quarter of 1998, after a record-setting pace during the first six months of the year. New issues to date have already surpassed 1997 levels, with a quarter still to go. This trend solidifies the growing role of NHA MBS in Canadian housing finance.

NHA MBS issues slowed in the third quarter of 1998, with 42 new pools issued totaling $1.4 billion. This was off the pace of $2.3 billion in new issues in the previous quarter and a record $3.7 billion in the first.

MBS growth cooled by reduced need for funding

Slightly higher mortgage rates combined with the temporary builder strikes in Southern Ontario slowed demand for mortgage funding in the third quarter.

More fundamentally, however, dwindling term deposits at financial institutions and growing consumer preference for longer-term mortgages should continue to underpin strong NHA MBS growth.

Social housing pools blaze trail in third quarter

Social housing pools led the way in the third quarter with new issues reaching $577.6 million, two and a half times the level of the previous quarter and more than eight times the first quarter of 1998. The bulk of the increase was attributed to four large issues in July. Social housing pools represented over 41 per cent of all issued amounts, surpassing single-family pools for the first time this year. Mixed pools more than doubled to $263.3 million in the most recent quarter, despite fewer issues, sustaining what has been a year long upward trend.

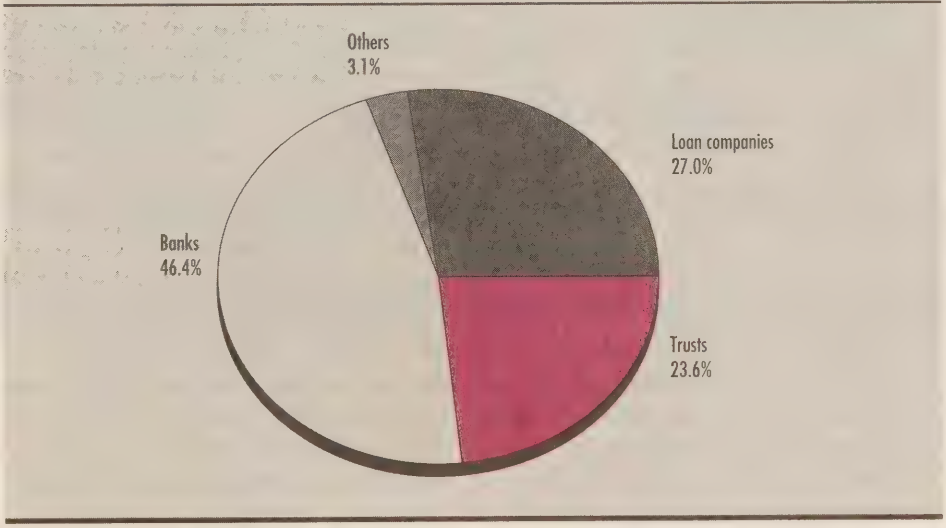
Pools of single-family residential housing slowed from a blazing first half pace, largely due to fewer issues of pool 970, the single residential pool with no penalty interest payments but with indemnity. This pool has accounted for over 73 per cent of total issue volume so far in 1998.

MBS-Government of Canada bond (GOC) spreads for all pool types widened 7-13 basis points from previous quarter levels, a trend consistent with widening spreads for other types of fixed-income securities such as provincial bonds and corporate bonds.

Trusts and loan companies combine for more than half of MBS issues

Trust and loan companies accounted for just over 50 per cent of NHA MBS issues, slightly more than the banks at 46 per cent. Life insurers accounted for 2.3 per cent of new issues, while credit unions issued less than one per cent of new issues in the third quarter. ■

Market Share of MBS Issues – 3rd quarter 1998



Source: CMHC

CMHC – MAC 1998

moving dramatically in one direction or another, that would affect our strategies with respect to lending in those markets. But what will really drive the mortgage market is consumers' confidence about their job security and their ability to service mortgage debt. That will have a bigger influence than lenders' criteria.

Christian Findlay: I agree. If there were to be a significant economic slowdown, there would be less new business demand for mortgages. As a result, there would be more competition for existing homeowners, so that market would heat up in terms of trying to switch each other's mortgage customers. There would also be more price sensitivity for renewing clients than there is now. An alternative to tightening up on credit, with financial institutions very focused on maintaining customer relationships, would be to start to price for risk which is a prevalent practice in U.S.. So the credit could be available but at a higher cost.

MMT: How has mortgage funding evolved over time and how has this affected mortgage rates?

Christian Findlay: There has been an evolution in the way institutions are funding their mortgage portfolio. In the past, 95 percent or more of our portfolio could be funded by the core deposits we bring in on the personal side of our customer relationships. However, we've seen GIC purchasers move to mutual funds and other high-yielding investments, and those clients who still choose GICs are opting for shorter terms. On the other side of the equation, the housing market has been strong because of lower interest rates, so there's been growing demand for mortgages. But home buyers are choosing longer terms to lock in lower rates, so we have a significant mismatch in terms of our mortgage loans and the business we bring in from our consumer clients. That means we've had to rely much more on the wholesale market for our funding.

This dynamic has made securitization much more attractive economically than it was in the past. That's why, at the beginning of this year, we saw some significant MBS issues. Then, over the summer, investor demand for MBS dried up completely. Indications from the market are that the MBS product needs to be repackaged to revitalize this investor appetite.

Bob Tillmann: I think the trend to securitization will continue and evolve. We are seeing some missteps in the market right now, but there will be a concerted effort to get it working in an efficient fashion because there are cost advantages to doing so. To the extent that we look for all ways to improve our cost structure, we create a more competitive rate environment for the customer.

MMT: What will be the key success factors for mortgage lenders in 1999?

Bob Tillmann: It is a competitive market, and I think everybody in the business is concerned about maintaining their customers. At Canada Trust, our key success factors in the mortgage market will be customer service and satisfaction. We're focused on providing not only good product offerings so as to bring in new customers but also on providing the best possible service to our renewing customers. And that will grow in importance.

Christian Findlay: I can identify three. One will be our focus on the relationships we have with our clients. That means building and retaining the mortgage and other related business. A focus on clients who are already loyal will be important as the demand for new business softens.

The second point, both on the origination side and on the servicing side, will be to keep costs to a minimum and to implement new technology. That's what we'll need to do to compete if and when U.S. players enter the Canadian market because they've got significant economies of scale we cannot yet replicate. So anything we can do that allows us to offer better service to our customers at a lower cost to us will be a win-win situation.

The third key success factor will be creating alliances and partnerships. These will allow us to offer increased value to our customers at a lower cost to each individual partner. Wherever different players in the industry can combine their expertise and the value they offer; again, we have a win-win situation.

Bob Tillmann: I agree. Strategic partnerships and alliances are a way of attracting more customers in a cost-effective way that ends up benefiting individual mortgage customers. If you can find partners with access to numbers of people who are shopping for mortgages, and if you can find an attractive way of packaging the benefits, then that's an opportunity for the partner, the lender and the customer to win.

MMT: Sounds like an interesting year ahead in the mortgage market. Thank you for sharing your views with us. ■

NHA Mortgage-Backed Securities Quarterly Issues

July to September 1998

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: July 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-059	PAFCO INSURANCE COMPANY	8,776,606.31	5.400	2003-07-01	6.88	23.82
96-413-083	M.R.S. TRUST COMPANY	6,819,518.16	5.450	2003-07-01	6.22	21.06
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-871	THE EQUITABLE TRUST COMPANY	22,685,869.22	5.450	2008-07-01	6.10	23.50
96-500-889	THE EQUITABLE TRUST COMPANY	4,527,653.15	4.250	2003-07-01	5.98	23.98
96-500-897	CIBC MTGS INC.(FIRSTLINE MTG)	32,720,864.20	5.875	2028-07-01	6.42	35.00
96-500-913	PEOPLES TRUST COMPANY	15,815,526.47	5.000	2003-07-01	5.98	19.85
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP)						
96-702-329	HONGKONG BANK OF CANADA	19,998,301.82	5.250	2003-06-01	6.18	22.06
96-702-337	HONGKONG BANK OF CANADA	3,738,070.95	5.000	2001-07-01	6.09	21.14
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-168	CANADA TRUSTCO MORTGAGE CO.	33,503,279.76	5.000	2001-07-01	6.14	21.41
97-001-333	THE EQUITABLE TRUST COMPANY	2,923,298.63	5.500	2005-07-01	6.36	21.71
97-001-341	CANADA TRUSTCO MORTGAGE CO.	171,365,382.44	5.000	2003-07-01	6.15	21.36
97-001-358	THE EQUITABLE TRUST COMPANY	8,542,869.37	6.125	2023-07-01	6.86	22.49
SOCIAL HOUSING POOLS						
99-007-775	TORONTO-DOMINION BANK	21,366,460.00	5.125	2002-07-01	5.63	35.00
99-007-783	TORONTO-DOMINION BANK	274,384,105.70	5.375	2028-07-01	5.94	30.00
99-007-791	TORONTO-DOMINION BANK	19,294,193.34	5.250	2008-07-01	5.76	29.57
99-007-809	TORONTO-DOMINION BANK	8,460,175.35	5.000	2003-09-01	5.56	20.00
MONTH OF ISSUE: August 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-067	PAFCO INSURANCE COMPANY	8,814,759.53	5.625	2003-08-01	6.90	23.65
96-413-091	M.R.S. TRUST COMPANY	5,998,527.02	5.450	2003-08-01	6.34	22.71
96-413-109	M.R.S. TRUST COMPANY	4,991,083.32	5.750	2008-08-01	6.50	23.25
96-413-117	FIRST HERITAGE SAVINGS CR.UN.	10,794,336.88	5.250	2003-08-01	6.15	22.68
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-905	PEOPLES TRUST COMPANY	3,998,796.25	5.375	2018-08-01	6.50	20.00
96-500-939	PEOPLES TRUST COMPANY	58,716,728.03	5.625	1998-09-01	6.36	25.67
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-059	PEOPLES TRUST COMPANY	6,293,470.92	4.875	2003-02-01	6.99	22.94
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-345	HONGKONG BANK OF CANADA	19,895,685.32	5.250	2003-07-01	6.24	22.17
96-702-352	HONGKONG BANK OF CANADA	3,659,794.28	5.250	2001-08-01	6.14	21.96
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-366	THE EQUITABLE TRUST COMPANY	15,000,589.28	5.450	2003-08-01	6.27	23.03
97-001-374	THE EQUITABLE TRUST COMPANY	20,163,887.42	5.700	2008-08-01	6.51	22.32
SOCIAL HOUSING POOLS						
99-007-817	PEOPLES TRUST COMPANY	7,151,524.34	5.375	2011-05-01	12.02	17.57
99-007-825	TORONTO-DOMINION BANK	112,838,972.05	5.500	2023-08-01	6.01	25.00
99-007-833	TORONTO-DOMINION BANK	20,313,838.43	5.500	2028-08-01	6.10	30.00

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: September 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-125	PAFCO INSURANCE COMPANY	6,027,722.74	5.600	2003-09-11	6.88	23.00
96-413-133	PAFCO INSURANCE COMPANY	3,135,738.13	5.750	2008-09-11	7.36	23.56
96-413-141	M.R.S. TRUST COMPANY	5,010,193.91	5.650	2003-09-01	6.42	22.43
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-921	PEOPLES TRUST COMPANY	115,939,634.06	5.300	2008-09-01	6.35	25.37
96-500-947	PEOPLES TRUST COMPANY	8,895,907.36	5.125	2003-09-01	6.22	20.77
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-067	PAFCO INSURANCE COMPANY	5,312,216.65	5.500	2003-09-01	6.49	23.86
NHA-INSURED MARKET RESIDENTIAL POOLS (NON PIP)						
96-702-360	HONGKONG BANK OF CANADA	19,122,335.63	5.250	2003-08-01	6.28	22.38
96-702-378	HONGKONG BANK OF CANADA	3,167,252.13	5.250	2001-09-01	6.21	21.55
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP WITH INDEMNITY)						
97-001-093	CANADA TRUSTCO MORTGAGE CO.	134,485,203.43	5.000	2003-09-01	6.27	12.11
97-001-382	THE EQUITABLE TRUST COMPANY	11,958,544.68	5.900	2008-09-01	6.57	22.54
SOCIAL HOUSING POOLS						
99-007-841	TORONTO-DOMINION BANK	95,260,228.89	5.500	2008-09-01	6.06	30.00
99-007-866	BANK OF NOVA SCOTIA	18,570,649.37	5.250	2003-09-01	6.00	27.28

PROVINCIAL RESIDENTIAL MORTGAGE MARKETS SLOW DOWN

y Ali Manouchehri, Senior Economist - Capital Markets

Residential mortgage credit outstanding grew at a slower pace in the 1990s compared to the previous decade. Provincially, British Columbia experienced the fastest pace of growth this decade at n average rate of 12.5 per cent per year, while Saskatchewan had the slowest growth rate at 1.9 per ent. Low mortgage rates, moderate home construction, and rising dwelling sales and house prices were among the primary drivers of the expansion of mortgage loans. The outlook for 1999 remains positive with a 3.5 per cent increase forecast for mortgage credit outstanding across provinces.

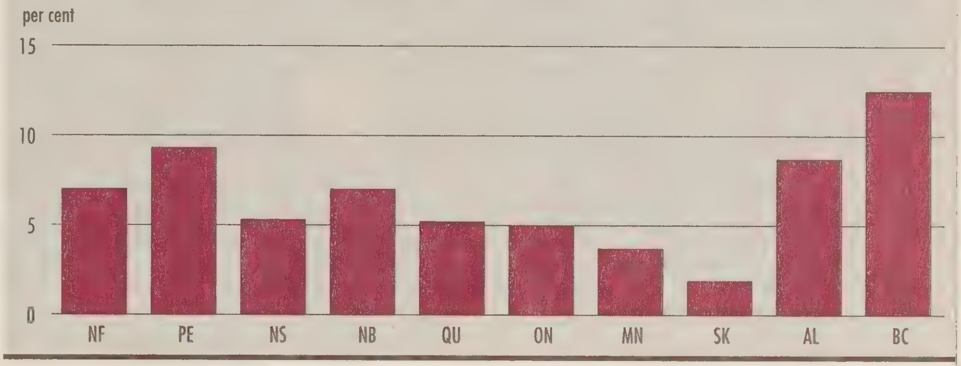
Provincial mortgage loans outstanding

Across the ten provinces, growth in mortgage markets slowed down to .6 per cent annually since 1991 compared to 20.8 per cent in the previous eight years.

The slower mortgage credit expansion corresponds to lower and more moderate home construction, sales, and price growth in Eastern Canada, partially offset by stronger performance in British Columbia and Alberta.

As the housing stock in each province has expanded over the years so has the mortgage credit outstanding, with larger increases in the provinces experiencing higher house prices.

Average annual residential mortgage credit growth 1991-98



Source: CMHC, Statistics Canada, Bank of Canada

CMHC – MAC 1998

Table 1. Residential mortgage credit outstanding & housing stock by province as of June 1998

Province	Mortgage loans ($m)	Housing stock * (dwelling units)	Mortgage loan per dwelling unit ($)
NF	2,506	199,027	$12,591.
PE	840	48,739	$17,235.
NS	6,608	355,041	$18,612.
NB	4,047	274,398	$14,749.
QU	61,055	3,005,349	$20,315.
ON	131,195	4,172,874	$31,440.
MN	7,140	432,253	$16,518.
SK	5,130	396,418	$12,941.
AL	26,394	1,028,271	$25,668.
BC	62,312	1,496,742	$41,632.
NW-YK	775	29,507	$26,265.
Total	308,469	11,438,621	$26,967.

Source: CMHC, Bank of Canada, Statistics Canada

* Estimate based on 1996 Census data and housing starts, completions, demolitions, and conversions for 1997-98.

Table 1 presents the provincial credit breakdown and the housing stock estimates by province as of mid-1998.

Provincial market shares

Chartered banks, credit unions, and trust companies hold most residential mortgage loans. However, market share by institution type varies from one province to the next due to the nature and structure of housing and finance sectors in each province.

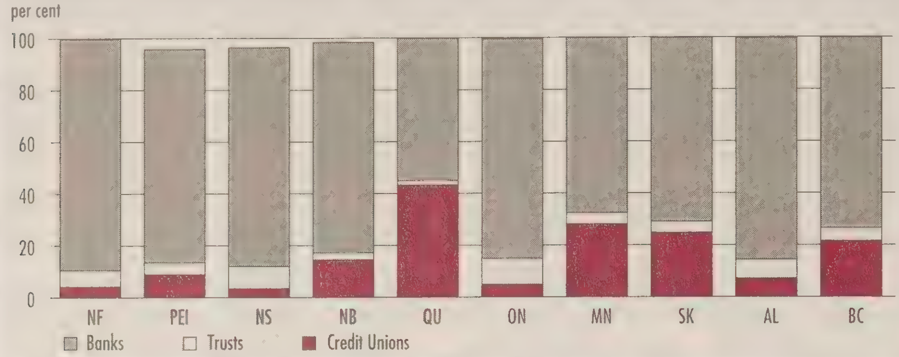
Credit unions account for over 43.0 per cent of the outstanding mortgage credit in Quebec. At the other end of the spectrum is Nova Scotia, where credit unions hold a market share of 3.4 per cent only.

Trust companies' market share ranges from a low of 1.7 per cent in Quebec to a high of 10.1 per cent in Ontario.

Results presented in this article are based on data for lenders who provide breakdowns by province. These include chartered banks, trust companies, mortgage companies, and credit unions. The mortgage credit outstanding for these institutions at midyear 1998 — reached $308.5 billion, representing approximately 81.0 per cent of the $381.3 billion total for all financial institutions.

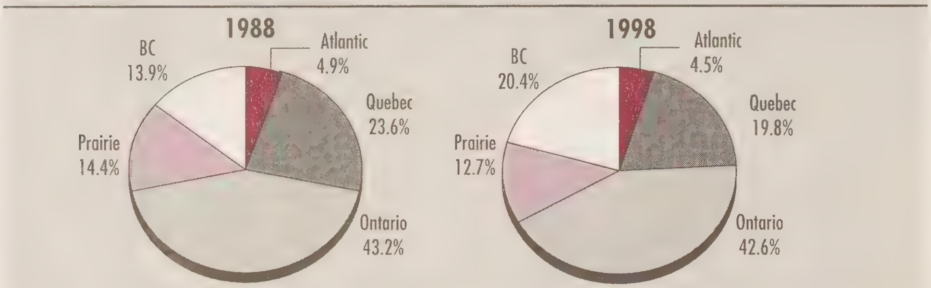
This data excludes activities of insurance companies, pension funds, brokerages, segregated and investment funds, financial corporations, and mortgage-backed securities, for which no provincial breakdowns are available.

Market share of residential mortgage loans outstanding by lender type, June 1998



Source: CMHC, Statistics Canada, Bank of Canada CMHC – MAC 1998

Regional distribution of residential mortgage loans - B.C. takes second place



Source: CMHC, Statistics Canada, Bank of Canada, Mid year data CMHC – MAC 1998

Chartered banks enjoy the largest market share in every province. In Quebec they hold 54.9 per cent of residential loans outstanding, while in Newfoundland their market share is close to 90.0 per cent.

British Columbia outpaces Quebec

Residential mortgage credit levels have traced housing market trends in each province and, accordingly have varied from province to province since the beginning of the 1990s.

British Columbia's vibrant housing industry in the first half of this decade caused provincial mortgage credit to grow by an average of 12.5 per cent a year since 1991, much faster than any other province. This rapid pace pushed British Columbia past Quebec in terms of its mortgage market size, despite a significantly smaller housing stock, and positioned it second only to Ontario. However, a slowdown in home construction and sales in the province has lowered mortgage credit growth to just under 6.0 per cent per year since 1996.

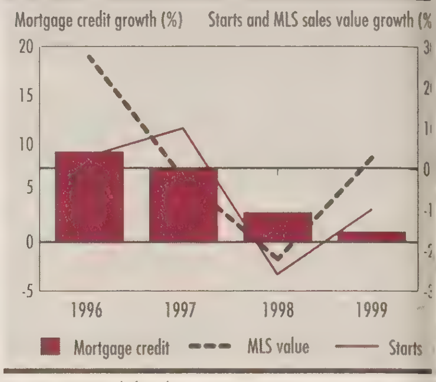
Prince Edward Island and Alberta ranked second and third in terms of annual growth rate of mortgage credit at nearly 9.0 per cent each. At the other end of the spectrum was Saskatchewan with a 1.9 per cent annual growth rate, reflecting its limited growth in house prices, sales, and starts.

Mortgage market outlook for 1999

British Columbia cooling off further

British Columbia's economy remained strong in the early 1990s but began to slow in 1996. The B.C.'s mortgage market grew fast and the outstanding residential loans expanded at an annual rate of

British Columbia



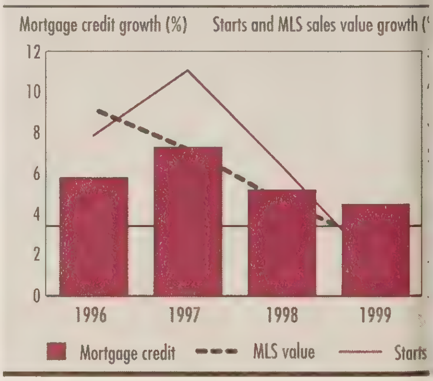
Source: CMHC, CREA, Bank of Canada CMHC – MAC

13.6 per cent in the first half of this decade, the fastest of any province. But mortgage growth has eased to less than half that rate since 1996.

The pace of home construction and sales dampened in line with th economy, and mortgage credit growt began to ease starting in 1996. The continued slow down will likely constrain mortgage credit growth t under 3.0 per cent this year and 1.0 per cent next year. The pause in housing and mortgage market in B.C. will have an appreciable impac on the national mortgage market since the province now accounts fo 20.0 per cent of the national mortgage credit outstanding.

Prairie region will march ahead

Prairie



Source: CMHC, CREA, Bank of Canada CMHC – MA

A strong Alberta economy has propelled the housing and mortgag markets in Alberta and the Prairie

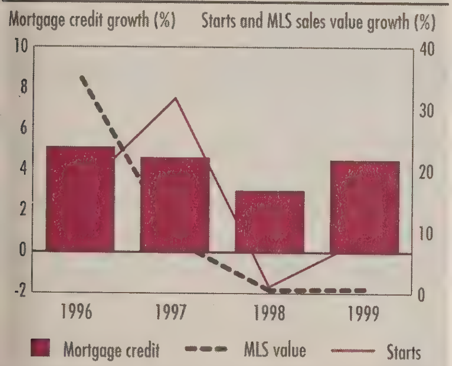
region as a whole over the last few years. However, the housing and consequently mortgage market growth rates are expected to ease this year and next. Mortgage credit growth will be led by Alberta while Saskatchewan and Manitoba will continue their slower growth pattern.

The region will lead the nation in mortgage credit growth with a rate of over 5.0 per cent this year and another 4.5 per cent in 1999.

Despite strong housing markets in recent years, the Prairie region's share of mortgage credit at around 13.0 per cent will continue to remain below its share of the national housing stock at 16.2 per cent, reflecting lower indebtedness of Prairie homeowners.

Ontario will hold the key

Ontario



Source: CMHC, CREA, Bank of Canada CMHC–MAC 1998

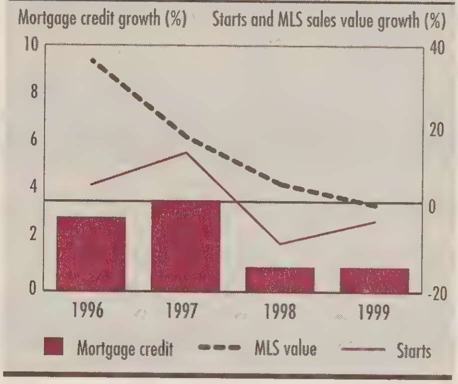
By 1996, Ontario's economy began to grow more rapidly. As housing starts and sales rebounded, so did mortgage lending activity and mortgage credit growth.

Labour disputes adversely impacted home construction and mortgage lending in 1998, holding mortgage credit growth to 3.0 per cent only. Housing starts are forecast to rise in Ontario next year while the impact of slower resale activity will be mitigated by higher prices, leading to mortgage credit growth of close to 4.5 per cent.

Since Ontario accounts for over 42.5 per cent of outstanding mortgage loans and 36.5 per cent of housing stock, any improvement in the province's housing and mortgage market will translate to stronger national markets.

Quebec will grow at a moderate pace

Quebec



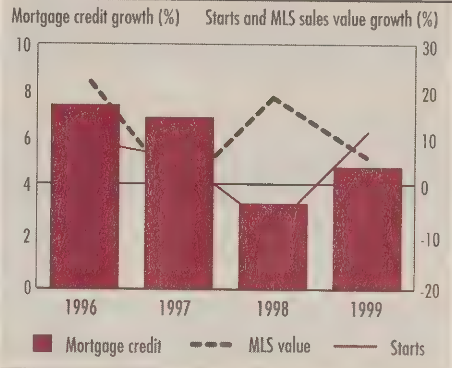
Source: CMHC, CREA, Bank of Canada CMHC–MAC 1998

Quebec's mortgage market has grown at a slower pace than the national average following a pattern similar to the housing market.

Quebec's mortgage market was slow to respond to rising starts and sales that occurred in 1996 and 1997. Forecast of slower house building and sales combined with little price appreciation in 1998-99 will continue to keep the pace of mortgage credit growth in check. Mortgage credit outstanding is expected to grow 1.0-2.0 per cent this year and next.

Atlantic region will move along

Atlantic



Source: CMHC, CREA, Bank of Canada CMHC–MAC 1998

The Atlantic region has experienced a fairly fast pace of mortgage growth so far this decade. As construction activity will pick up next year, counterbalancing a slow down in resale, the pace of mortgage lending and residential mortgage credit will accelerate to 5.0 per cent in 1999, up from 3.5 per cent in 1998. ■

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1996	1997	97Q3	97Q4	98Q1	98Q2	98Q3
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	13,968.4	14,787.4	14,870.5	14,787.4	17,404.2	18,300.3	18,289.8
	Units	1,370	1,251	1,286	1,251	1,233	1,223	1,188
Residential, single (with PIP) (1)	$million	5,607.1	2,961.7	3,403.0	2,961.7	2,835.5	2,457.5	2,141.9
	Units	740	581	632	581	542	517	481
Residential, single (no PIP)	$million	997.7	1,383.6	1,362.5	1,383.6	1,397.2	1,377.5	1,368.4
	Units	131	191	178	191	200	204	208
Residential, single (no PIP with indemnity) (2)	$million		4,371.0	3,829.0	4,371.0	7,525.0	9,042.0	9,116.0
	Units		60	40	60	96	125	133
Residential, multiple	$million	$1,385.5	$1,580.3	$1,446.9	$1,580.3	$1,538.3	$1,522.6	$1,375.8
	Units	59	87	75	87	87	91	91
Social Housing	$million	$5,730.6	$4,048.6	$4,447.5	$4,048.6	$3,590.7	$3,268.3	$3,463.7
	Units	404	279	311	279	249	218	204
Mixed	$million	$247.5	$442.5	$381.4	$442.5	$517.6	$632.1	$823.9
	Units	36	53	50	53	59	68	71
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	1,722.7	6,949.0	2,301.7	1,268.7	3,701.7	2,298.2	1,380.4
	Units	154	238	61	70	65	66	42
Residential, single (with PIP)	$million	$522.2	$532.8	$126.4	$136.1	$167.1	$65.8	$60.4
	Units	37	43	11	13	10	7	9
Residential, single (no PIP)	$million	$371.7	$679.8	$203.5	$132.8	$88.2	$58.0	$69.6
	Units	53	60	13	13	9	6	6
Residential, single (no PIP with indemnity) (2)	$million		4576.7	1,631.2	629.8	3,283.0	1,760.0	398.0
	Units		60	19	20	36	29	8
Residential, multiple	$million	$254.9	$329.2	$28.6	$151.7	$10.0	$53.5	$11.6
	Units	21	29	5	12	1	6	2
Social Housing	$million	$446.4	$568.3	$244.7	$144.5	$67.0	$234.1	$577.6
	Units	31	21	8	5	2	8	9
Mixed	$million	$127.5	$262.2	$67.2	$73.7	$85.8	$127.1	$263.3
	Units	12	25	5	7	7	10	8
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		6.73	5.66	5.47	5.39	5.39	5.51	5.58
MBS Prepayable (no PIP)		6.77	5.73	5.53	5.46	5.47	5.56	5.63
MBS Non-prepayable		6.59	5.56	5.36	5.29	5.29	5.42	5.49
MBS MMUF		6.64	5.62	5.42	5.37	5.38	5.47	5.54
Mortgage rates		7.92	7.07	6.95	6.82	6.85	6.95	7.08
GOCs		6.44	5.43	5.24	5.17	5.15	5.27	5.27
SPREADS OVER GOC (5-YEAR MATURITY,%)								
Prepayable (with PIP)		0.28	0.23	0.23	0.22	0.23	0.24	0.3[illegible]
Prepayable (no PIP)		0.33	0.30	0.30	0.29	0.31	0.29	0.36
Non-prepayable		0.14	0.13	0.12	0.12	0.13	0.15	0.22
MMUF		0.20	0.19	0.18	0.20	0.23	0.20	0.27
Mortgage rates		1.48	1.64	1.71	1.65	1.70	1.68	1.8[illegible]

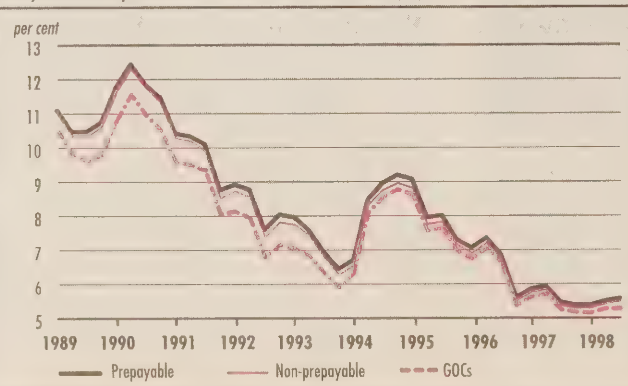
(1) PIP stands for Penalty Interest Payments (2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.
Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC

CMHC – MAC 199

Selected interest rates

(5-year maturity)

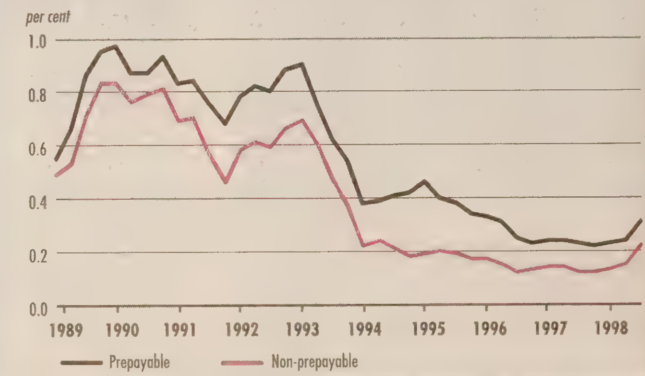


Source: Nesbitt Burns.

CMHC – MAC 1998

Spreads over GOCs

(5-year maturity)



Source: Nesbitt Burns.

CMHC – MAC 19

ANADA MORTGAGE AND HOUSING CORPORATION

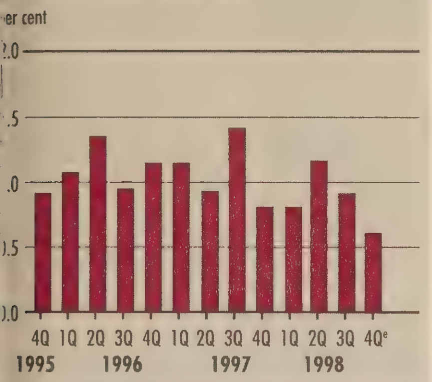
CMHC MORTGAGE MARKET

TRENDS

ARKET ANALYSIS CENTRE

FIRST QUARTER 1999

esidential mortgage credit growth*
rom previous quarter)



ominal e: estimate
urces: Bank of Canada; CMHC. CMHC – MAC 1999

arket share of residential mortgage credit[e] (%)

	4Q97	1Q98	2Q98	3Q98	4Q98[e]
nks	62.1	62.6	63.0	63.3	63.5
usts	7.0	6.7	6.5	6.3	6.2
isses & Co-op	14.2	14.1	14.0	13.9	13.9
fe	5.8	5.7	5.6	5.5	5.4
ension Funds	2.1	2.1	2.1	2.1	2.0
n. & Loan	8.8	8.8	8.8	8.8	8.9

estimate
otal may not add up to 100% due to rounding
urces: Bank of Canada; CMHC. CMHC – MAC 1999

NSIDE

MORTGAGE CREDIT

STEADY GROWTH IN MORTGAGE LENDING

by Gary J. MacDonald, Senior Economist

Mortgage lending continued to grow throughout 1998, with average dollar volume of $379.6 billion outstanding, 3.9 per cent more than in 1997. While slightly below the growth rates of 1996 and 1997, this performance was solid.

Lending sustained by first-time buyers

In the first three quarters of 1998, new business (mortgage approvals) was down 5.6 per cent in dollar volume and 12.8 per cent in the number of units. NHA mortgage approvals, generally for first-time buyers, slipped only 2.6 per cent while conventional approvals fell by 7.8 per cent. With home sales slowing late in the year, this pattern was probably maintained in the fourth quarter.

Soft housing markets gave little support to lending

Housing markets did not give much support to mortgage markets in 1998. Starts of new dwellings were down 6.5 per cent to 137,439, and the 314,200 MLS* sales for the year were down 4.8 per cent from the record set in 1997. In addition, prices were up less than 1.0 per cent for new construction and down 1.5 per cent for MLS sales.

What did help in 1998 were very low mortgage rates. These provided an incentive for consumers to maintain mortgage balances and to use available funds for renovation projects or other purposes. In many cases, new loans were consolidated with existing mortgage debt. Brisk activity continued even while confidence in the overall economy wavered through the year, as the Asian economic slowdown had its way with Canada's resource sector.

* *Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.*

Long-term rates down significantly

Although short-term mortgage rates rose to levels last seen at the beginning of 1996, they were still very attractive by standards of the last decade. Longer rates fell to levels not seen in a generation. These conditions helped in two closely related ways:

- First, low long-term rates enhance affordability and give many consumers confidence that it is a good time to buy. In addition, since long-term rates are of greatest concern to the most risk-averse borrowers, declining rates also reduced their fear that high rates at renewal would make future mortgage payments unmanageable.
- Second, low long-term rates suggest that inflation is very low and not likely to bring back high interest rates in the near future. The major reduction in consumer uncertainty that follows is always good for economic activity.

Chartered banks increase market share

Chartered banks saw their share of mortgage credit grow from 62.1 per cent in the fourth quarter of 1997 to 63.5 per cent in the last quarter of 1998. This increase came at the expense of all other lenders except the finance and loan companies, which managed to increase their share by 0.1 per cent to 8.9 per cent. Caisses populaires and credit unions were the only other group to increase volume, although their share fell 0.3 per cent to 13.9 per cent. ■

CANADIAN RESIDENTIAL MORTGAGE DEBT IN THE 1990S

by Ali Manouchehri, Senior Economist-Capital Markets, and Hal Irwin, Economist

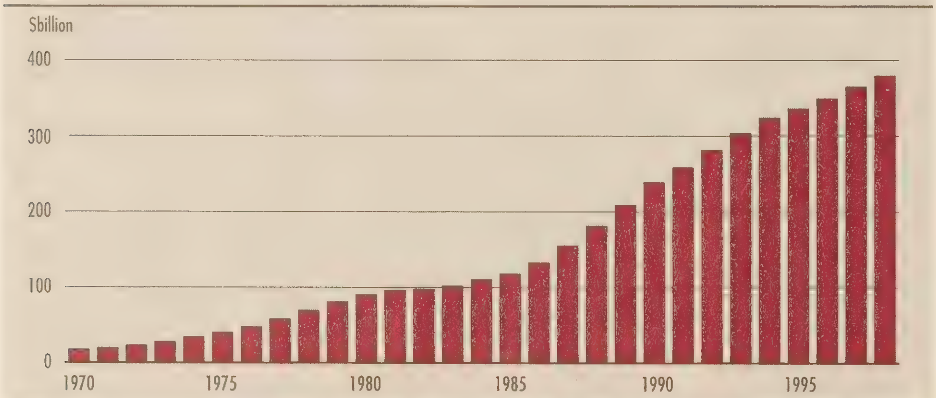
Canadians place a high value on home ownership and invest large amounts of money and effort in their homes. Their dreams of home ownership have led to a substantial growth in household mortgage debt and higher financial risk over the years. Since 1991, households have kept mortgage loan growth in line with their other debts. The outlook for managing our mortgage debt over the next decade looks brighter thanks to demographic factors, the easing pace of mortgage borrowing, and low mortgage rates.

Realization of home ownership dream has been costly

The home ownership dream has turned into reality for the majority of households; approximately 64 per cent of 10.8 million Canadian households now own their homes. The keen desire for home ownership, however, also led to a mortgage debt of approximately $384.3 billion in Canada by the end of 1998.

A recent survey[1] shows that average mortgage debt is about $74,000 per home owner. Home owners in British Columbia lead the way with an average mortgage of $96,000, while their Atlantic counterparts carry the smallest mortgage debt at $50,000. An average home owner has been making mortgage payments for nine years and has 12 more years of payments remaining.

Residential mortgage debt mountain



Source: CMHC, Statistics Canada

CMHC–MAC 1999

[1] *Clayton Research Associates Ltd., Financial Industry Research Monitor, June 1998.*

What drives mortgage debt?

- When the economy expands and more jobs are created, home sales, housing starts, and prices all rise. These improved conditions lead to a higher volume of mortgage-lending activity.
- Low mortgage rates bring down the cost of home ownership, attract more buyers to the market, and encourage mortgage lending. By the same token, low mortgage rates, in combination with higher income levels, tend to accelerate prepayments and reduce mortgage credit outstanding.
- Regulatory changes, such as the introduction of the Home Buyers' Plan and the five per cent down payment program in 1992, can attract more buyers to the housing market and add to the amount of mortgage loans outstanding.
- A change in demographic factors–for example, the size of the 25-44 year age group, which constitutes the primary group of home buyers—can, over the years, affect mortgage-lending growth and the number of loans outstanding, while economic and regulatory factors have more of a short-term impact on the mortgage market.
- As home owners shift their equity between residential and other assets, household portfolio considerations can also influence the amount of mortgage loans outstanding.

Cool real estate markets lose out to hot equity markets

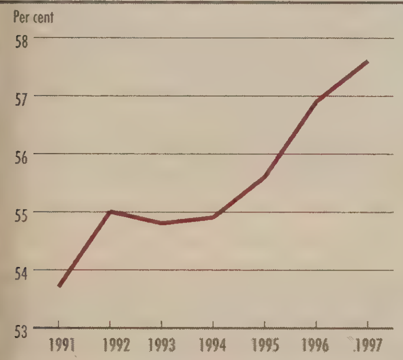
Undoubtedly enticed by the remarkable rates of return generated in recent years by equities relative to other asset classes, households have been reallocating their portfolios away from comparatively cool real estate markets toward superheated stock markets. As a result, residential assets have fallen as a proportion of financial assets held by Canadian households, from 43.6 per cent in 1991 to 38 per cent in 1997.

leavy reliance on mortgages

lortgage debt expressed as a proortion of the total value of residenal assets owned in Canada has icreased steadily, from 54.8 in 1994) 57.6 per cent in 1997. The rising nancial leverage implies less real ssets per dollar of mortgage debt utstanding available to be sold to atisfy lenders or insurers in the vent of default. It indicates a lower ıeasure of protection for Canadian enders and an escalating financial sk to these lenders, their borrowers nd the economy as a whole.

Despite rising financial leverage f the housing sector, Canadians' ttitude toward home ownership has ıade mortgage default less likely. 'anadian households are very nlikely to declare personal bankuptcy and default on mortgage.

Household mortgage debt
Compared to residential assets

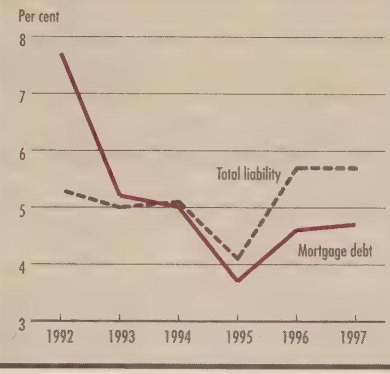


rce: CMHC, Statistics Canada — CMHC–MAC 1999

Vill we turn the corner on nortgage debt?

'he rise of mortgage debt levels in 'anada is well documented. Less so ; evidence suggesting that Canadins may be crawling out from under ıe mortgage debt mountain. The nnual rate of growth of Canadian ıortgage debt in 1992 was 7.7 per ent, well above the 5.3 per cent rowth rate of our total liabilities.)ne year later, it had dropped to bout 5.0 per cent. Since then, 'anadians have been accumulating ıortgage debt more slowly than ther liabilities.

Canadian mortgage debt growth: Turning the corner?

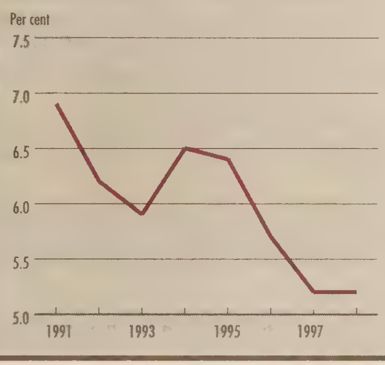


Source: CMHC, Statistics Canada — CMHC–MAC 1999

As a proportion of total liabilities, outstanding mortgage balances dropped from 67.4 per cent in 1993 to 65.7 per cent in 1997.

Falling mortgage rates have also helped ease the burden of residential mortgages. Mortgage payments now account for approximately 5.2 per cent of disposable income, compared with 6.9 in 1991 (assuming that all borrowers had opted for the five-year term).

Mortgage payment
as percent of disposable income
Assuming 5-year term for all borrowers

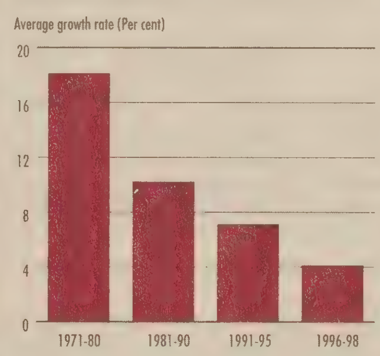


Source: CMHC, Statistics Canada, Conference Board of Canada — CMHC–MAC 1999

Mortgage debt has grown at a dramatically slower pace in the 1990s than in the previous two decades. The mortgage credit outstanding has expanded at less than 7.0 per cent annually in the 1990s, down from 10 per cent in the 1980s and 18 per cent in the 1970s. The growth rate has dropped even further in the second half of 1990s.

The easing of the mortgage growth rate will likely continue into the next century because baby-boomers have already passed their prime homebuying age and housing markets remain weak. The slower growth of mortgage loans, coupled with low mormortgage rates and lighter carrying costs, should set the stage for Canadian households to gradually crawl out from under their mortgage debt mountain in the years ahead. ■

Residential mortgage growing slower



Source: CMHC, Bank of Canada — CMHC–MAC 1999

Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	1998	97Q4	98Q1	98Q2	98Q3	98Q4[e]
TOTAL	349,745	365,408	379,569	370,888	373,873	378,515	381,870	384,019
% change	4.0	4.5	3.9	0.8	0.8	1.2	0.9	0.6
Banks	198,289	218,791	239,446	230,238	233,912	238,302	241,895	243,674
Trust Co.	42,118	33,712	24,491	26,028	25,173	24,740	24,096	23,953
Caisses & CO-OP	49,322	51,686	53,173	52,493	52,866	53,132	53,206	53,488
Life Ins. Co.	22,716	22,072	21,041	21,615	21,183	21,204	21,066	20,712
Pension Funds	7,724	7,983	7,920	7,860	7,851	8,002	7,989	7,838
Fin. & Loan	29,576	31,164	33,499	32,654	32,887	33,135	33,619	34,354

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

Quarterly residential mortgage credit growth (%)

Sources: Bank of Canada; CMHC. *CMHC – MAC 199*

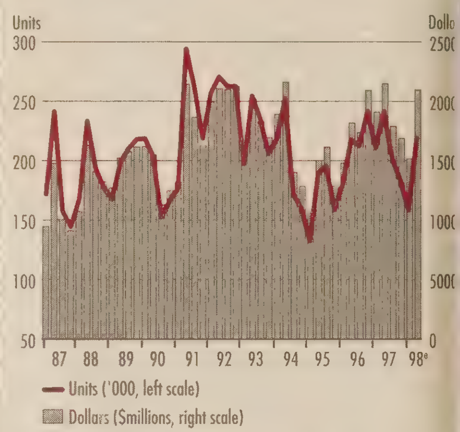
NHA and Conventional loans approved[1]

		1996	1997	97Q4	98Q1	98Q2	98Q3
TOTAL	$ millions	70,671	75,312	16,875	15,160	20,967	19,045
	Units	840,044	837,479	183,470	158,899	218,671	192,840
NHA	$ millions	29,767	31,375	6,720	7,037	9,452	7,519
	Units	360,802	353,626	75,296	75,542	101,490	79,824
Conventional	$ millions	40,904	43,937	10,155	8,123	11,515	11,526
	Units	479,242	483,853	108,174	83,357	117,181	113,016
By type of lender							
Banks	$ millions	51,284	57,424	13,014	11,661	16,244	14,599
	Units	581,320	602,491	132,319	113,562	160,777	141,903
Trust Co.	$ millions	8,021	7,335	1,340	1,214	1,799	1,599
	Units	89,032	80,406	14,519	12,654	19,800	17,132
Life Ins. Co.	$ millions	2,926	2,716	770	440	431	376
	Units	50,126	47,876	11,812	9,428	8,224	5,834
Others	$ millions	8,440	7,837	1,751	1,845	2,493	2,470
	Units	119,566	106,706	24,820	23,255	29,870	27,971

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1999*

NHA and Conventional approvals



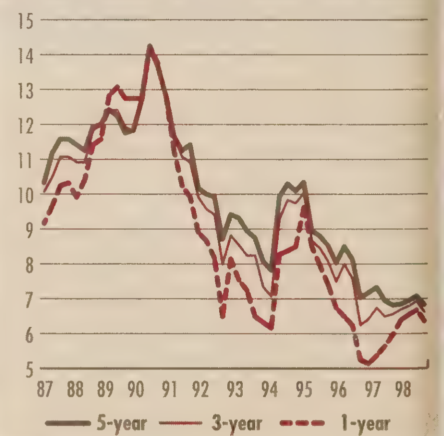
Source: CMHC. *CMHC – MAC 199*

Mortgage rates (%) (Average of period)

	1996	1997	1998	97Q4	98Q1	98Q2	98Q3	98Q4
1-Year Mortgage Rate	6.19	5.54	6.50	5.98	6.40	6.55	6.68	6.37
3-Year Mortgage Rate	7.33	6.56	6.77	6.57	6.70	6.80	6.93	6.63
5-Year Mortgage Rate	7.92	7.07	6.93	6.82	6.85	6.95	7.08	6.83

Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

Mortgage rates (%)



Source: Bank of Canada. *CMHC – MAC 199*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506. Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Colin Mills, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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NHA MORTGAGE-BACKED SECURITIES

NHA MBS PERFORMANCE

y Lucie Gagnon, Insurance Business Analyst - Insurance Products and Services Division

n 1998, the MBS market experienced record volumes of new issues, with 212 pools totalling 9,076 million.

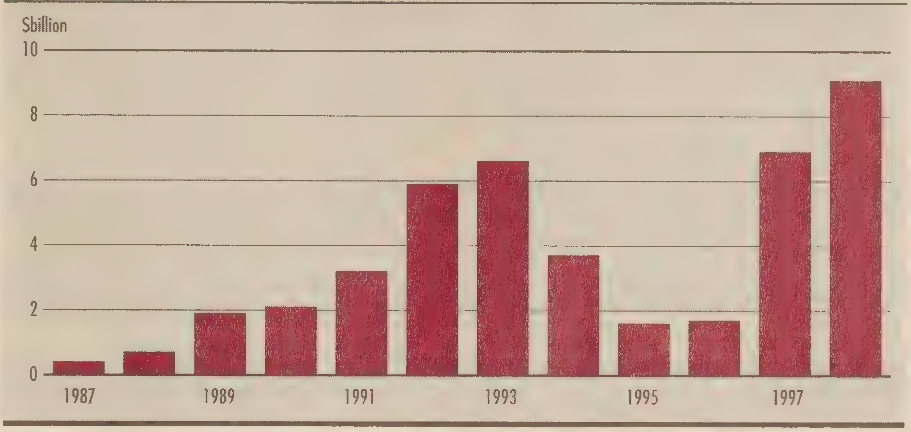
998 in review

'ollowing the sharp upturn in JHA MBS activity in 1997, the MBS rogram continued to experience ecord issue levels in 1998. Last year, here was a volume of $9,076 million ssued in 212 pools, representing rowth of approximately 31 per cent ver the 1997 level.

MBS growth in 1998 was the result f a number of factors: a new pool ype was introduced in 1997; the ield curve flattened, thus encouraging longer-term mortgages; and rowing mortgages put pressure on egulatory capital ratios. Higher preads between mortgage rates and omparable Government of Canada GOC) bonds, the shrinkage of the Government debt supply, and the enders' use of alternative mortgage unding mechanisms also had a ositive impact on the increased olume of MBS.

Over two thirds of the pools ssued in 1998 were single-family esidential pools, totalling $7,364 nillion, a 27 per cent increase over he previous year. Issues of multiple esidential pools reached $157 nillion in 1998, which was 52 per ent lower than last year's total. In ontrast, issues of social housing ools rose to $1,015 million, an ncrease of 78 per cent from 1997, vhereas mixed pools totalled $538 nillion, more than double the figure f a year ago.

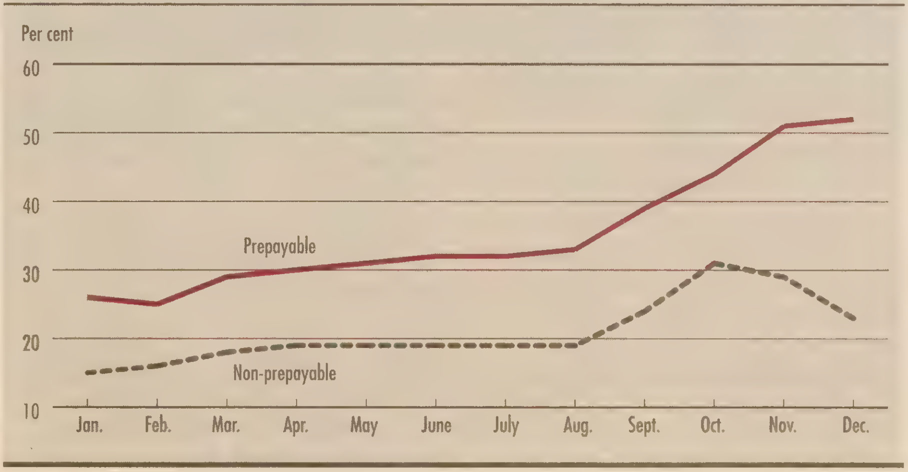
MBS issued volume



Source: CMHC — CMHC – MAC 1999

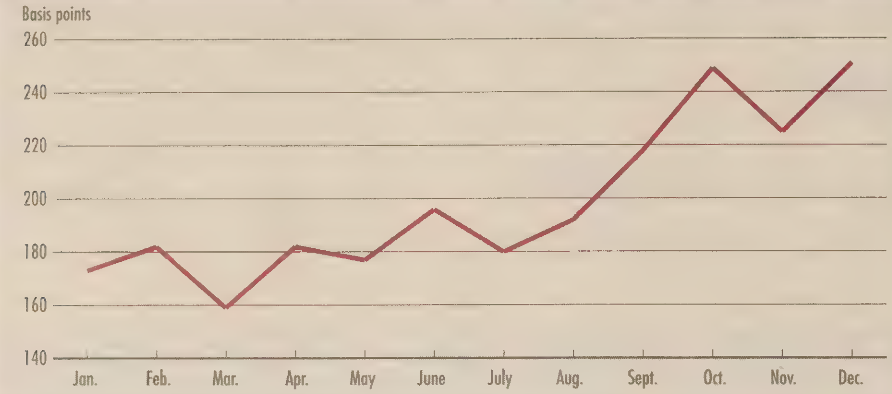
Through 1998, five-year MBS-GOC bond spreads for prepayable pools increased by more than 25 basis points, and spreads for non-prepayable pools increased by approximately 10 basis points. With the investors' flight to quality, there was an oversupply of MBS during the third quarter of 1998, with several large issuers holding back sales. As a consequence, there was an expansion in investor yield spreads of MBS over GOCs, a development that affected issuers' profitability and slowed new MBS-issued volumes over the last quarter.

5-year MBS-Government bond yield spreads



Source: CMHC, Bank of Canada — CMHC – MAC 1999

5-year posted mortgage-government bond spreads, 1998



Source: CMHC, Bank of Canada

CMHC – MAC 1999

However, during 1998, the continued increase in the spread between the posted five-year mortgage rates and GOC bonds stimulated issuers' interest in the product and increased the issued volume of MBS.

Changes in the market

Financial institutions are beginning to use other securitization vehicles to facilitate the management of their capital and liquidity. Hence, the unique position enjoyed for many years by NHA MBS no longer exists. Since 1997, alternative asset-backed vehicles, particularly asset-backed commercial paper, have been growing at rates far exceeding that for MBS. The NHA MBS program is at a crossroads, and CMHC has to meet the needs of both issuers and investors to assure the product's continued viability.

To that effect, CMHC is currently reviewing its NHA MBS program and product to find ways of overcoming MBS product concerns and market imperfections:

- On the issuers' side, there have been calls for the NHA MBS product to be more flexible, less costly and less time-consuming to issue. Industry representatives have also requested that future MBS product changes might include non-insured mortgages in the issuers' pools.
- On the buyers' side, the MBS product has mainly been purchased by institutional investors and pension plans. The current product has monthly cash flows that are affected by prepayment streams, and even some sophisticated investors are having problems handling the administrative complexity of the accounting and taxation aspects of the MBS product (especially because their systems are used mainly to record standard government and corporate bonds). For smaller institutional investors and regular retail investors, the MBS product competes with more traditional investment vehicles (such as the standard government bond, which pays interest on a semi-annual basis and pays back the capital at maturity). Making the MBS product less complex may attract more investors and simplify issuing procedures.

In 1999, CMHC wants to contribute more actively in the evolution of the secondary market by helping issuers bring a more attractive product to market—something that may entail modifying the NHA MBS program and product. To this end, CMHC is considering proposals made by industry representatives. Consultations will continue throughout the year on changes being considered. ■

1998 MBS HIGHLIGHTS

1998 new issues:

- 212 pools for total volumes of $9,076 million
- 142 single-family pools of $7,364 million, a 27 per cent increase over the volume issued in 1997
- issues of multiple residential pools 52 per cent lower than in 1997
- issues of social housing pools up 78 per cent from 1997
- mixed pools more than 200 per cent higher than in 1997
- MBS-GOC 5-year spreads were higher at the end of 1998 than at the end of 1997:
  - by more than 25 basis points for prepayable pools
  - by approximately 10 basis points for non-prepayable pools
- The MBS Guide was made available in electronic form (both the CD-ROM and Internet versions) in the fall of 1998
- MBS circulars were posted to CMHC's Web site at the end of 1998
- CMHC and Montréal Trust conducted a review of indemnity reporting for the 970 pool
- CMHC began discussions with industry representatives on the continued appropriateness of the 1995 BMB Study and other needed changes to the MBS program.

NHA Mortgage-Backed Securities Fourth Quarter Issues

October to December 1998

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: October 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-174	M.R.S. TRUST COMPANY	10,005,265.31	5.450	2008-10-01	6.55	22.18
96-413-182	PAFCO INSURANCE COMPANY	6,530,998.90	5.000	2003-10-01	7.02	24.09
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-954	PEOPLES TRUST COMPANY	16,766,689.28	5.200	2008-10-01	6.84	24.38
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-075	PEOPLES TRUST COMPANY	6,440,050.00	5.500	2013-10-01	6.54	25.00
96-601-083	THE EQUITABLE TRUST COMPANY	6,660,650.00	4.000	2001-10-01	5.45	25.00
96-601-091	PEOPLES TRUST COMPANY	16,595,681.08	5.200	2008-10-01	6.10	29.46
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-394	HONGKONG BANK OF CANADA	37,782,466.41	5.250	2003-09-01	6.24	20.61
96-702-402	HONGKONG BANK OF CANADA	18,857,029.61	5.250	2003-09-01	6.35	21.93
96-702-410	HONGKONG BANK OF CANADA	3,073,696.18	5.500	2001-10-01	6.22	21.99
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-390	THE EQUITABLE TRUST COMPANY	8,350,011.21	5.125	2003-10-01	6.42	22.61
97-001-408	CANADA TRUSTCO MORTGAGE CO.	586,347,820.20	5.000	2003-10-01	6.33	21.18
SOCIAL HOUSING POOLS						
99-007-874	TORONTO-DOMINION BANK	29,425,043.29	5.000	2003-10-01	6.01	33.74
99-007-882	TORONTO-DOMINION BANK	20,594,113.81	4.875	2001-06-01	7.53	27.53
MONTH OF ISSUE: November 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-208	FIRST HERITAGE SAVINGS CR.UN.	15,758,190.74	5.250	2003-11-01	6.32	22.23
96-413-216	VANC. CITY SVGS. CREDIT UNION	36,703,155.25	5.450	2003-10-01	6.30	22.08
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-962	THE EQUITABLE TRUST COMPANY	5,263,250.00	5.700	2018-11-15	6.92	25.00
96-500-970	THE EQUITABLE TRUST COMPANY	33,820,172.87	5.450	2008-11-01	6.36	23.72
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-109	PEOPLES TRUST COMPANY	15,188,822.81	5.250	2008-11-01	6.09	22.31
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-428	HONGKONG BANK OF CANADA	19,396,481.78	5.500	2003-10-01	6.40	22.25
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-416	CANADA TRUSTCO MORTGAGE CO.	54,859,110.14	5.000	2003-06-01	6.13	19.67
97-001-424	CANADA TRUSTCO MORTGAGE CO.	31,896,549.56	5.000	2003-06-01	6.17	11.35
97-001-432	CANADA TRUSTCO MORTGAGE CO.	36,933,808.25	5.000	2001-11-01	6.23	20.45
97-001-440	THE EQUITABLE TRUST COMPANY	6,451,502.47	5.450	2003-11-01	6.42	22.03
SOCIAL HOUSING POOLS						
99-007-890	TORONTO-DOMINION BANK	33,067,845.30	5.375	2023-11-01	5.97	29.43

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: December 1998						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-190	PAFCO INSURANCE COMPANY	10,214,132.60	5.250	2003-12-01	6.99	23.27
96-413-224	M.R.S. TRUST COMPANY	13,972,592.34	5.400	2003-12-01	6.35	22.28
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-988	THE EQUITABLE TRUST COMPANY	6,507,670.26	5.450	2018-12-01	6.65	20.00
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-117	PEOPLES TRUST COMPANY	10,123,455.84	4.875	2003-12-01	6.15	20.43
96-601-125	PEOPLES TRUST COMPANY	9,635,848.55	5.125	2008-12-01	6.31	24.64
96-601-158	MARITIME LIFE ASSURANCE CO.	6,909,327.20	4.625	2003-11-01	5.97	18.17
96-601-166	MARITIME LIFE ASSURANCE CO.	5,276,224.57	5.000	2008-11-01	6.23	19.59
96-601-174	PEOPLES TRUST COMPANY	5,693,801.98	5.125	2003-12-01	6.52	20.93
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-436	HONGKONG BANK OF CANADA	3,516,265.51	5.250	2001-12-01	6.20	21.56
96-702-444	HONGKONG BANK OF CANADA	14,851,749.41	5.500	2003-11-01	6.25	21.95
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-457	NATIONAL BANK OF CANADA	65,249,390.21	5.000	2003-08-01	6.56	11.84
97-001-465	NATIONAL BANK OF CANADA	403,493,795.42	5.000	2003-08-01	6.48	22.40
97-001-473	MFQ-VIE CORPORATION D'ASSURANC	10,636,664.07	5.000	2003-10-01	6.48	21.93
97-001-481	THE EQUITABLE TRUST COMPANY	19,018,947.49	5.350	2008-12-01	6.55	22.34
SOCIAL HOUSING POOLS						
99-007-908	TORONTO-DOMINION BANK	53,479,844.83	5.625	2023-12-01	6.15	29.54

*PIP stands for Penalty Interest Payment

GENERATION X AND HOME OWNERSHIP IN QUEBEC: IMPLICATIONS FOR LENDERS

y Philippe Le Goff, Senior Economist

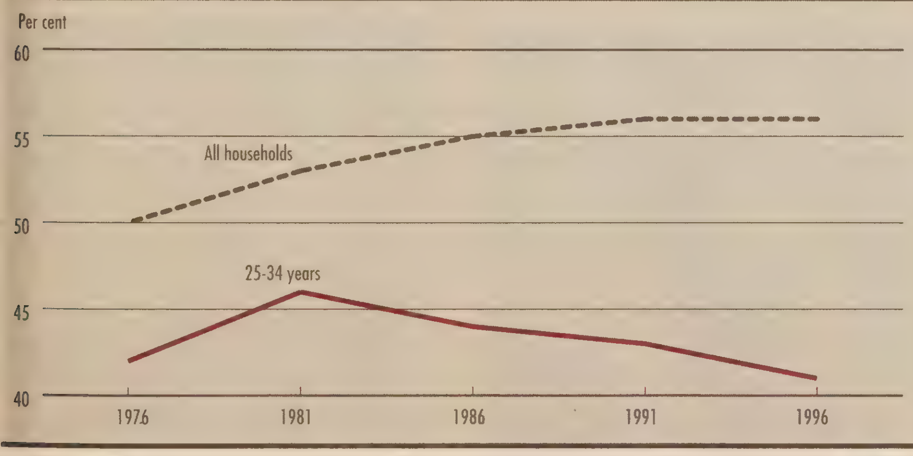
or members of generation X, now between 25 and 34 years old, home ownership is not a priority. urveys show that they buy homes less often than earlier generations did, and that the proportion of heir disposable income dedicated to housing is not increasing. Yet, this generation constitutes the uture of the residential mortgage market. As baby-boomers pay off their mortgage debts, financial nstitutions will have to review their marketing strategies if mortgage credit is to grow despite this ukewarm generation.

eneration X perceives omeownership as a liability

ccording to a 1998 survey conducted in Quebec, people between 5 and 34 years old do not consider uying a home to be a priority. In act, members of Generation X onsider recreational activities and ravel and retirement savings to be nore important than housing. Not nly do financial security, employnent stability and recreational ctivities take precedence for these espondents over buying a home; hey do not even seem to associate inancial security with homeownerhip. Quite the contrary: they perceive home ownership to be a brake n professional mobility and a threat o their personal finances, allowing them no room to manoevre in an emergency—if they lose their job or get a divorce, for example. In addition, because the members of generation X do not believe that the real estate market will be favourable to them in the medium or long term, they lack urgent financial motives to become home owners.

The decline of the nuclear family and uncertain labour market conditions have made home ownership ill-suited to the lifestyle of a large proportion of young people aged between 25 and 34 . Home ownership seems to appeal to couples with a steady income and those with a new family. Nowadays, these conditions pertain less frequently than they used to.

Today's 25-34 years old buy fewer first homes



urce: CMHC, Statistics Canada

CMHC–MAC 1999

A peek at socio-economic conditions for Generation X in Quebec

Demographics

- Quebecers aged 25 to 34 form fewer households than previously—10 per cent fewer in 1996 than in 1991.
- Fewer and fewer young people live as couples, and young people also have fewer children. The formation of couples and the birth of children often lead people to buy homes. The popularity of common-law relationships has not offset the decline in marriages.

Debts, incomes and labour force participation

- Even if members of Generation X wanted to put a down payment together for a house, many would be hampered by student debt. In 1995, Canadians graduating with a college diploma had average debts of $9,600; new holders of bachelor's degrees owed an average of $13,300. When these amounts are adjusted for inflation, they represent respective increases of 130 per cent and 140 per cent over the debts of 1982 graduates, according to Statistics Canada. The level of indebtedness in Quebec is somewhat smaller because tuition

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HOME BUYERS' PLAN ASSISTED MORE THAN 110,000 INDIVIDUALS IN 1998

by Ali Manouchehri, Senior Economist - Capital Markets

The federal government's Home Buyers' Plan helped over 110,000 individuals to realize their home ownership dream last year. Collectively, these individuals withdrew more than $1.1 billion in RRSP funds to purchase homes. Over 70 per cent of those participating in the program were residents of Ontario and Quebec.

What is the Home Buyers' Plan?

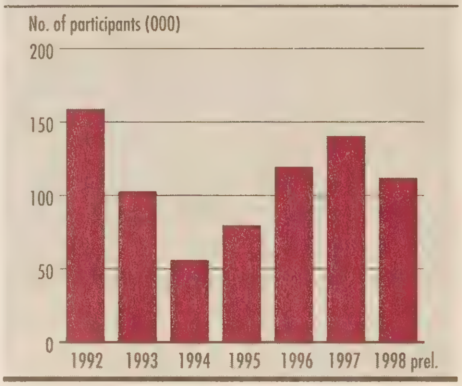
The Home Buyers' Plan (HBP) was introduced by the Government of Canada in 1992 to make it easier for individuals to purchase homes. It allows Canadians tax-free withdrawals of up to $20,000 from RRSPs to be used as a down payment on a house. The amounts withdrawn remain tax-exempt if they are repaid at an agreed-upon rate within 15 years. The HBP was limited to first-time home buyers in March 1994, but enhancements to the program that became effective in 1999 now allow previous home owners to participate in the program again, provided that they have not owned a house in the previous five years and have fully repaid any previous funds withdrawn under the program. The most recent changes to the program will also make it more available to disabled individuals and those caring for them.

HBP helps home buyers

Preliminary data show that over 110,000 individuals took advantage of HBP to become home owners in 1998. Collectively, these individuals withdrew nearly $1.1 billion from their RRSPs to buy homes. The average withdrawal was about $9,750, in line with that of previous years.

Since its inception in 1992, HBP has helped some 777,000 individuals to become home owners and has channeled nearly $7.5 billion into the housing market across the country.

Home Buyers' Plan has helped nearly 770,000 individuals



Source: Revenue Canada. 1998 data is preliminary — CMHC – MAC 1999

HBP bodes well for the real estate market

Although HBP withdrawals accounted for only about 2 per cent of the value of homes sold through MLS in 1998, they played a critical role in the residential real estate market. Nearly 35 per cent of individuals who bought their homes through MLS last year withdrew from their RRSPs to fund their purchase. In Quebec, 75 per cent of those purchasing their homes through the real estate board utilized the HBP, while only one in four did so in Alberta.

Ontario and Quebec residents continue to subscribe heavily to HBP

Ontario home buyers accounted for over 40 per cent of both participants and amounts withdrawn in 1998. Quebec accounted for 30 per cent of participants and 36 per cent of amounts withdrawn, followed by B.C., which accounted for 10 per cent of participants and funds withdrawn last year. Variation in the size of the average withdrawal—ranging from a low of $6,825 in New Brunswick to a high of $11,500 in Quebec—reflects diversity of housing markets, home buyers' purchasing preferences, and financial institutions in these provinces.

Participants typically withdrew from more than one RRSP to buy a

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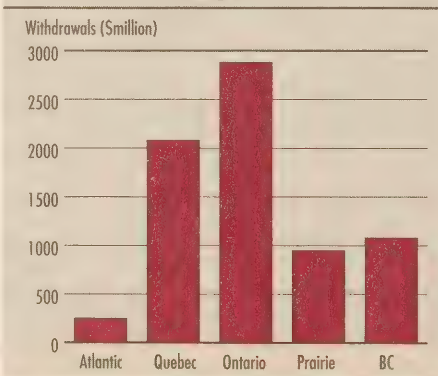
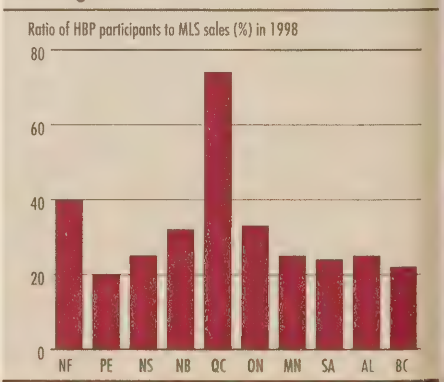
Home Buyers' Plan has channeled some $7.5 billion to housing markets



Source: Revenue Canada. 1998 data is preliminary — CMHC – MAC 1999

HBP plays a significant role in provincial housing markets



Source: Revenue Canada and Canadian Real Estate Board. 1998 data is preliminary — CMHC – MAC 1999

continued from page 9

fees are lower in the province, but debt remains a concern. Over 14 per cent of graduates surveyed said they were having difficulty repaying their debts.

Despite their higher level of schooling, young people born in the 1960s had incomes below those of their predecessors when they entered adulthood. The difficult economic conditions, combined with their relatively unfavourable position behind the baby-boomers, weakened their relative income and made their economic position precarious.

In 1996, the participation rate for men aged 25 to 29 was 88 per cent. By comparison, in 1981, a year of severe recession, it was 92.8 per cent. During the same period, the participation rate went down from 94.5 per cent to 90.4 per cent for men aged 30 to 34 years old. This illustrates the greater difficulty that young people have had accessing the labour market.

Housing and consumption

Unlike the overall population rate in Quebec, the home ownership rate is declining among people 25 to 34 years old. The proportion of home owner households in this group stood at 42.4 per cent in 1976. It was the same in 1986, but it fell to 41.3 per cent in 1996—at a time when homes were more affordable than ever and when the minimum down payment had been reduced. Meanwhile, during this 20-year period, the proportion of home owners in all age ranges climbed from 50.3 per cent to 56.2 per cent.

- According to the Bureau de la statistique du Québec, the amount spent by young persons aged 25 to 29 years on recreational activities, in constant dollars and adjusted in relation to household size, jumped by 44 per cent in Quebec. For those aged 30 to 34 years, these expenses climbed by 20 per cent. Over the same period, housing expenses rose by only 2.0 per cent among 25-29 year olds and by 5.0 per cent among 30-34 year olds. More recent data would likely show that housing expenses had stabilized even more, since a good part of the increase in average housing-related expenses is linked to the constant rise in the home ownership rate of all households.

Major consequences for mortgage lenders in Quebec

Much has been written on the baby-boomers and their impact on the mortgage market. For years, this sizeable generation was at the forefront of the mortgage market because there were so many of them and because they tended to become home owners and to go into debt to meet their housing needs. Today, most baby-boomers are more than 35 years old, beyond the age when households accumulate massive debts to buy homes. Moreover, the oldest baby-boomers are now more than 50 years old. They are entering a period in their lives when mortgage debt declines rapidly. Surveys show that baby-boomers want to repay their mortgage loans as quickly as possible and that accelerated repayments are becoming more popular.

But the generation following the baby-boomers have not been receptive to the home ownership message. Members of Generation X, especially in Quebec's large urban centres, do not seem distressed at the prospect of remaining renters. When they do buy homes, they prefer apartments and town houses. With the current demographic composition of the population, this inevitably means fewer and smaller mortgage loans.

A mainly urban phenomenon, perhaps nation-wide

The underlying trend suggested by all these factors seems more of a generational phenomenon than the result of current economic conditions, and lenders are hard-pressed to figure out how to reverse the trend. Lenders at the national level would be well advised to verify if the housing attitudes of Generation X in Quebec also prevail in large urban centres elsewhere in the country. ■

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home. The average number of withdrawals per participant has been hovering around 1.3 since the inception of the program.

Low mortgage rates and wider access to the program will continue to encourage many individuals to take advantage of HBP in 1999. ■

Provincial participation in HBP in 1998

Province	Participants	Average withdrawal
NF	886	7,344
PE	236	7,501
NS	1,929	7,228
NB	1,227	6,824
QC	33,658	11,511
ON	45,550	9,533
MN	2,640	6,983
SA	1,975	6,585
AL	11,063	7,808
BC	11,669	9,344
NT	117	10,572
YK	113	8,642
National	111,063	9,736

Source: Revenue Canada, 1998 data is preliminary

NHA MORTGAGE-BACKED SECURITIES

(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

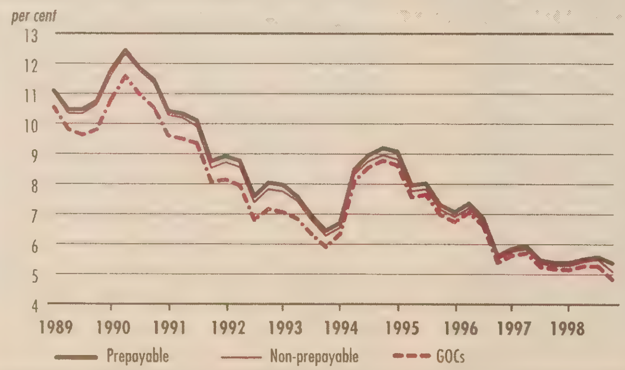
		1997	1998	97Q4	98Q1	98Q2	98Q3	98Q4
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	14,787.4	19,100.9	14,870.5	17,404.2	18,300.3	18,289.8	19,100.9
	Units	1,251	1,152	1,251	1,233	1,223	1,188	1,152
Residential, single (with PIP) (1)	$million	2,961.7	1,962.2	2,961.7	2,835.5	2,457.5	2,141.9	1,962.2
	Units	581	434	581	542	517	481	434
Residential, single (no PIP)	$million	1,383.6	1,398.2	1,383.6	1,397.2	1,377.5	1,368.4	1,398.2
	Units	191	213	191	200	204	208	213
Residential, single (no PIP with indemnity) (2)	$million	4,371.0	10,029.0	4,371.0	7,525.0	9,042.0	9,116.0	10,029
	Units	60	143	60	96	125	133	143
Residential, multiple	$million	$1,580.3	$1,414.3	$1,580.3	$1,538.3	$1,522.6	$1,375.8	$1,414.3
	Units	87	97	87	87	91	91	97
Social Housing	$million	$4,048.6	$3,425.0	$4,048.6	$3,590.7	$3,268.3	$3,463.7	$3,425.0
	Units	279	190	279	249	218	204	190
Mixed	$million	$442.5	$872.1	$442.5	$517.6	$632.1	$823.9	$872.1
	Units	53	75	53	59	68	71	75
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,949.0	9,075.6	1,268.7	3,701.7	2,298.2	1,380.4	1,695.3
	Units	238	212	70	65	66	42	39
Residential, single (with PIP)	$million	$532.8	$386.5	$136.1	$167.1	$65.8	$60.4	$93.2
	Units	43	32	13	10	7	9	6
Residential, single (no PIP)	$million	$679.8	$313.3	$132.8	$88.2	$58.0	$69.6	$97.5
	Units	60	27	13	9	6	6	6
Residential, single (no PIP with indemnity) (2)	$million	4576.7	6,664.0	629.8	3,283.0	1,760.0	398.0	1,223.0
	Units	60	83	20	36	29	8	10
Residential, multiple	$million	$329.2	$157.6	$151.7	$10.0	$53.5	$11.6	$82.5
	Units	29	18	12	1	6	2	9
Social Housing	$million	$568.3	$1,015.3	$144.5	$67.0	$234.1	$577.6	$136.6
	Units	21	23	5	2	8	9	4
Mixed	$million	$262.2	$538.6	$73.7	$85.8	$127.1	$263.3	$62.4
	Units	25	29	7	7	10	8	4
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		5.66	5.47	5.39	5.39	5.51	5.58	5.38
MBS Prepayable (no PIP)		5.73	5.50	5.46	5.47	5.56	5.63	5.33
MBS Non-prepayable		5.56	5.33	5.29	5.29	5.42	5.49	5.10
MBS Non-Prepayable Multi-Family Pools		5.62	5.41	5.37	5.38	5.47	5.54	5.26
Mortgage rates		7.07	6.93	6.82	6.85	6.95	7.08	6.83
GOCs		5.43	5.13	5.17	5.15	5.27	5.27	4.83
SPREADS OVER GOC (5-YEAR MATURITY,%)								
Prepayable (with PIP)		0.23	0.34	0.22	0.23	0.24	0.31	0.56
Prepayable (no PIP)		0.30	0.37	0.29	0.31	0.29	0.36	0.51
Non-prepayable		0.13	0.19	0.12	0.13	0.15	0.22	0.27
MBS Non-Prepayable Multi-Family Pools		0.19	0.29	0.20	0.23	0.20	0.27	0.44
Mortgage rates		1.64	1.80	1.65	1.70	1.68	1.81	2.01

(1) PIP stands for Penalty Interest Payments (2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.
Not seasonally adjusted data.

Sources: Nesbitt Burns; CMHC. CMHC – MAC 199

Selected interest rates

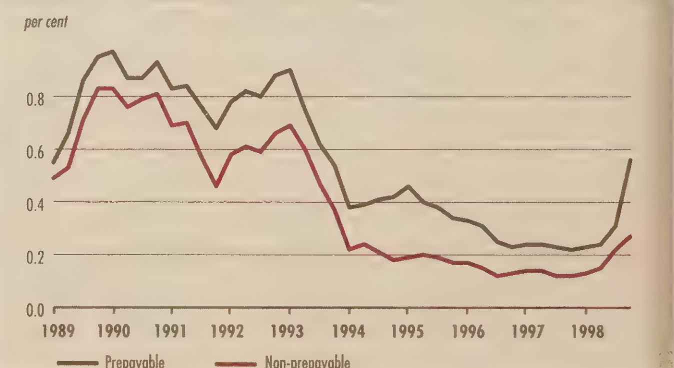
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1999

Spreads over GOCs

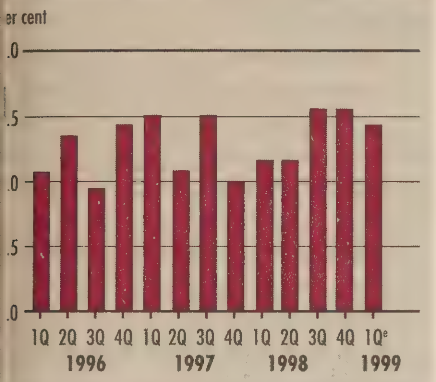
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 199

CMHC MORTGAGE MARKET
TRENDS
MARKET ANALYSIS CENTRE — SECOND QUARTER 1999

esidential mortgage credit growth*
om previous quarter)



ominal e: estimate
rces: Bank of Canada; CMHC. CMHC–MAC 1999

arket share of residential mortgage credit° (%)

	1Q98	*2Q98*	*3Q98*	*4Q98*	*1Q99e*
nks	63.1	63.5	64.3	64.7	65.0
usts	6.6	6.4	6.2	6.0	6.0
isses & Co-op	13.9	13.8	13.6	13.5	13.4
fe	5.6	5.5	5.3	5.1	5.1
nsion Funds	2.1	2.1	2.1	2.0	2.0
n. & Loan	8.7	8.6	8.5	8.6	8.6

estimate
tal may not add up to 100% due to rounding
rces: Bank of Canada; CMHC. CMHC–MAC 1999

NSIDE

MORTGAGE CREDIT

MORTGAGE LENDING MARCHES ON

by Ali Manouchehri, Senior Economist - Capital Markets

Mortgage lending grew at a healthy rate of 1.4 per cent in the opening quarter of 1999, in step with an improving market for new homes. Mortgage credit outstanding reached $401 billion in March, thanks to contributions from both the primary and secondary mortgage markets.

Approvals still shrinking but at a slower pace

New business was down again in the final quarter of 1998, by 6.6 per cent, after 11.6 per cent fewer mortgage approvals in the previous quarter. This movement reflects some improvement in new-home business, which was down by 3.4 per cent from the previous quarter, in contrast to a 15.6 per cent decline for existing homes.

Resilient new housing markets set the tune

Markets for existing housing remained weak in the first quarter of 1999, with stable prices and slower sales providing limited room for mortgage lending growth. At the same time, however, new home markets regained some of their strength, rising nearly 5.0 per cent higher than in the previous quarter. Purchases of new homes usually represent more substantial mortgage loans than resale purchases, which normally result in a small addition to mortgage loans outstanding.

Rising consumer confidence contributed to mortgage borrowing

Increasingly confident consumers refocused on investment rather than on the repayment of mortgage debt in the first quarter. With posted mortgage rates at their lowest levels in thirty years, particularly for longer terms, many consumers had an incentive to consolidate renovation-related borrowing and personal loans into mortgage loans, fuelling the mortgage credit growth. The recovery of North American equity markets also encouraged some home owners to increase their mortgages in order to invest in equities.

Secondary market gaining momentum

The primary mortgage market was 0.9 per cent higher in the first quarter of 1999 than in the previous quarter, while the secondary market

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FINANCIAL SERVICES AND RENOVATION WAREHOUSES

by Philippe Le Goff, Senior Economist

Financial institutions are increasing the number of ways in which they reach their clients by turning away from traditional branch banking and going toward more innovative means. In fact, with the establishment of micro-branches in some supermarkets, consumers now have access to an almost full range of banking services where they shop. Some indications suggest that it is only a matter of time before financial services are offered in large renovation warehouses.

Virtual banking at home: Time is money

In the last ten years, the number of bank branches has grown by an average of 1.5 per cent per year. At the same time, the number of Canadian households that own a computer has risen from 10.3 per cent to 36 per cent. Although only 23 per cent of households have access to the Internet at home, this number will rise rapidly, and financial transactions are certain to increase via the Internet as e-commerce becomes more secure and younger users take the place of those more skittish about on-line safety.

Fast and flexible, varied and specialized, transactional financial services are becoming more and more virtual, replacing automatic teller machines, to say nothing of human tellers. The "bank at home" principle via the Internet is also making some headway in consulting services, such as lending and investment activities. Some institutions offer consulting services at home by appointment and some bank branches have recently opened up in supermarkets.

Banks are joining their clients at the supermarket

Electronic banking services were inspired by the drive to reduce costs and enhance the effectiveness of service delivery. The appearance of banking services in supermarkets shows that banks wish to get closer to consumers on a daily basis, to increase visibility and to make clients more loyal so that the banks can increase their market share. Families have repeatedly indicated in surveys that they are living at a feverish pace and that they do not have enough time to spend with their relatives and on their recreational activities. But they must shop for food. When banks provide services at the supermarket, they show that they are responsive to clients who would like to avoid going to more places than necessary.

The next step: Banks in the land of the renovators

After supermarkets, the places most frequently visited by consumers are renovation warehouses and shopping centres. Bank branches have long been present in shopping centres for the same reasons that they have gone into supermarkets. What then is preventing banks from maintaining a presence in renovation centres? The sharing of commercial space by two different businesses under the same roof would not be unprecedented.

The volume of business in renovation and gardening superstores is probably similar to that enjoyed by supermarkets. In fact, all the reasons that put banking services into supermarkets also apply to renovation superstores. Banks cannot be unaware of the boom in spending in the renovation market; they must realize that this market offers real opportunities for increasing their lending activities.

The beginnings: Ad hoc agreements

According to our information, some independent or franchised renovation centres already offer complete financing services for major renovations through their general renovation and installation services.

These financing services, offered on site along with retail sales of renovation items and materials, are based on generally attractive ad hoc agreements with lending institutions. For the moment, the presence of the financial institution is limited to advertising. The institution itself is in competition with the renovation centre for the provision of financing; the general renovation service is its real client.

A beneficial partnership for everyone

If lenders and renovation services coordinated their services so that consumers could get rapid access to financing on site (for example, approval in under an hour), consumers would have to do less running around for financing and they would be able to get to their renovations more quickly. This arrangement would benefit renovation warehouses through increased sales of construction materials, and it would benefit financial institutions by providing direct access to renovation credit without their having to deploy staff, set up infrastructures or launch advertising campaigns.

continued on page 3

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'erms and conditions: Flexible ind attractive

'ne financing terms and conditions ready offered to renovators resem-le those available at bank branches.

- Store credit card with staggered monthly payments and a low interest rate for small renovations.
- Personal loans at a rate below that of a line of credit for work costing a few thousand dollars. One store visited in April 1999 offered an interest rate of 7.75 per cent. At the time of writing, the interest rate for personal loans was hovering around 9.00 per cent at major financial institutions.
- For major renovations, costing over $5,000, the store helps consumers obtain a line of credit with the same conditions as those offered by bank branches, at rates between 7.50 per cent and 11.00 per cent.
- Finally, for revovators requiring a large sum of money, assistance is available to remortgage their property. Naturally, the renovating home owner must assume appraisal costs, legal fees and mortgage registration expenses.

formula for the future?

his discussion raises two funda-iental questions for renovation nancing:

- Is this integration of construction materials, distribution activities, general renovation services and financing services on the road to expansion?
- If so, are a physical bank presence and an extended range of financial services desirable for consumers and profitable for lending institutions?

This discussion has already gone a ong way toward answering the first uestion. Still, it is unclear just how ie addition of financial services vould affect the profitability of enovation centres. It also remains to e seen whether renovation centres vill want to use integrated renova-on services as a way of standing

continued on page 9

RENOVATION FINANCING: IT HELPS TO HAVE A LINE OF CREDIT

by Louis Trottier, Economist

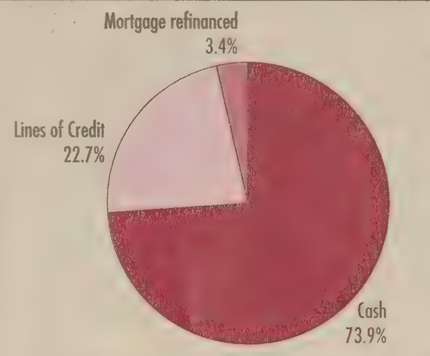
Even though Canadians spend nearly $23 billion on renovation every year, most projects are too modest to require loans. About $6 billion worth of renovation spending is financed on credit per year, including about $780 million in mortgage refinancing, with home equity used as collateral.

Only about 5 per cent of renovations are financed. According to Statistics Canada's survey on repairs and renovations, most home improvement loans are relatively small—close to 50 per cent of them for $4,000 or less.

The most frequent source of renovation financing is line of credit. According to the Financial Industry Research Monitor (FIRM) survey, almost 4 out of 5 households use this type of credit when they borrow money for renovations. It offers great flexibility and is well suited to various small projects that typically last a few weeks and require frequent purchases of materials.

More rare are larger projects that involve considerable sums of money. According to the FIRM survey, households that pay for renovations by refinancing mortgages borrow an average of $27,000. More than half of these loans—57 per cent—are for between $11,000 and $20,000. ■

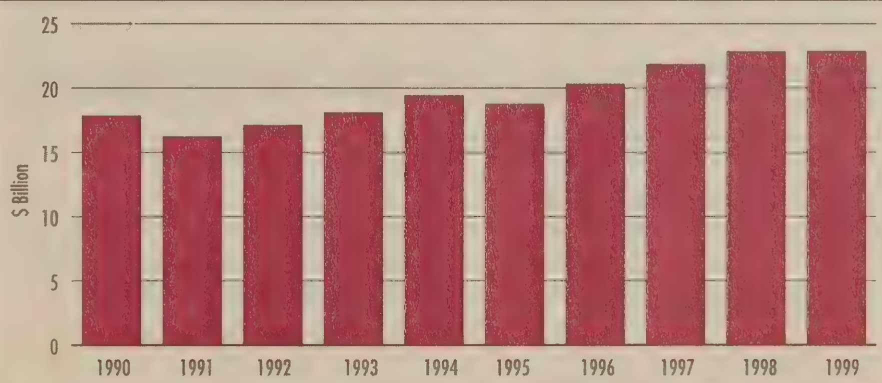
How is renovation paid for?



Total amount spent on renovations in 1998: $23 billion

Source: FIRM Survey, CMHC — CMHC - MAC 1999

Renovation spending reaching highest level in the 90s



Source: CMHC, Statistics Canada — CMHC—MAC 1999

Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	1998	98Q1	98Q2	98Q3	98Q4	99Q1[e]
TOTAL	350,158	368,389	387,351	379,315	383,931	389,999	396,158	401,543
% change	4.1	5.2	5.1	1.2	1.2	1.6	1.6	1.4
Banks	198,706	221,789	247,531	239,197	243,755	250,724	256,446	260,982
Trust Co.	42,120	33,701	24,461	25,197	24,656	24,064	23,926	24,126
Caisses & CO-OP	49,322	51,686	53,140	52,881	53,128	53,156	53,397	53,641
Life Ins. Co.	22,713	22,071	20,857	21,241	21,224	20,669	20,293	20,376
Pension Funds	7,724	7,983	7,978	7,851	8,002	8,074	7,987	7,965
Fin. & Loan	29,573	31,160	33,384	32,948	33,166	33,313	34,110	34,453

(1) Seasonally Adjusted Data (e) Estimate

Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

Quarterly residential mortgage credit growth (%)

Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

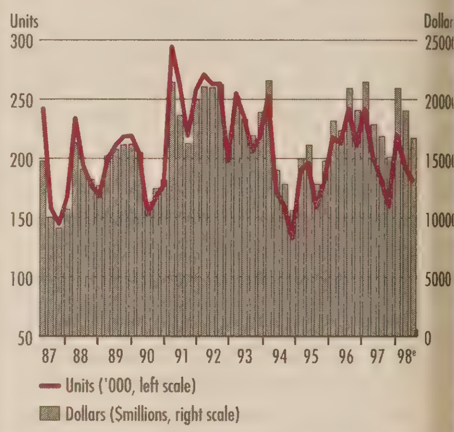
NHA and Conventional loans approved[1]

		1997	1998	98Q1	98Q2	98Q3	98Q4
TOTAL	$ millions	75,317	71,861	15,134	20,937	19,048	16,742
	Units	839,107	755,003	159,550	219,812	194,213	181,428
NHA	$ millions	31,355	30,197	6,940	9,284	7,417	6,556
	Units	352,680	333,004	75,608	101,167	79,873	76,356
Conventional	$ millions	44,163	41,664	8,194	11,653	11,631	10,186
	Units	486,427	421,999	83,942	118,645	114,340	105,072
By type of lender							
Banks	$ millions	57,245	55,162	11,608	16,174	14,573	12,807
	Units	602,149	549,170	113,680	160,646	142,161	132,683
Trust Co.	$ millions	7,302	5,954	1,238	1,812	1,615	1,290
	Units	79,727	66,695	13,419	20,907	18,269	14,100
Life Ins. Co.	$ millions	2,718	1,474	391	428	347	308
	Units	48,048	27,103	8,433	7,838	5,387	5,445
Others	$ millions	8,053	9,271	1,897	2,524	2,512	2,338
	Units	109,183	112,035	24,018	30,421	28,396	29,200

(1) Not Seasonally Adjusted

Source: CMHC. *CMHC – MAC 1999*

NHA and Conventional approvals



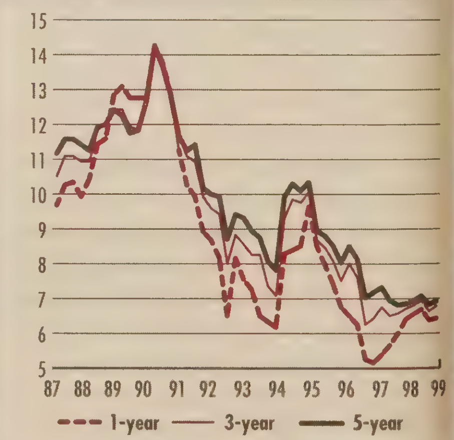
Source: CMHC. *CMHC – MAC 1999*

Mortgage rates (%) (Average of period)

	1996	1997	1998	98Q1	98Q2	98Q3	98Q4	99Q1
1-Year Mortgage Rate	6.19	5.54	6.50	6.40	6.55	6.68	6.37	6.42
3-Year Mortgage Rate	7.33	6.56	6.77	6.70	6.80	6.93	6.63	6.77
5-Year Mortgage Rate	7.92	7.07	6.93	6.85	6.95	7.08	6.83	6.92

Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

Mortgage rates (%)



Source: Bank of Canada. *CMHC – MAC 1999*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506. Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Colin Mills, Director, MBS Centre, CMHC, Toronto Tel.: (416) 218-3305.

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IHA MORTGAGE-BACKED SECURITIES

IHA MBS SET TO OUTPACE 1998 RECORD VOLUMES

y Ian Witherspoon, Senior Program Officer, MBS Centre

'he strong trend in NHA MBS has continued in the first quarter of 1999 after a record $9 billion ;sued in 1998. Also boding well for MBS is the Large Value Transfer System, introduced in February f this year, which allows NHA MBS as collateral.

esidential single pools with idemnity lead the way

he $2.9 billion in NHA MBS olumes posted in the first quarter epresented the second largest uarterly performance in the history f the NHA MBS program. The ngle-family mortgage pool types d the way in early 1999, in particlar the 970 indemnity pool type, which has taken a commanding ead at $1.9 billion, representing two nirds of the pools issued to date. he 964 pool type, at $566 million, as also surpassed last year's total— y 47 per cent.

ull steam ahead in 1999

he major banks led the way in the rst quarter of 1999, with a tremenous 65 per cent market share, epresenting more than $1.8 billion f NHA MBS securities. This trend is xpected to continue, owing in part o the sheer size of mortgage portolios held by the banks.

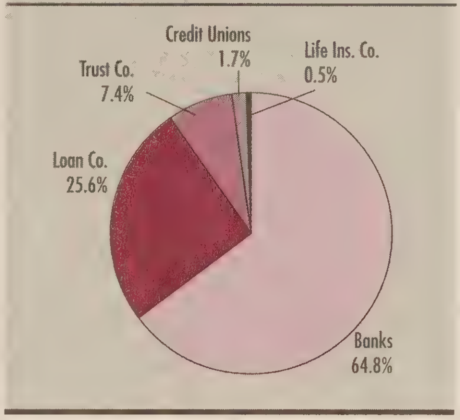
VTS

he Large Value Transfer System LVTS), introduced by the Bank of anada in February 1999, is exected to become the dominant ystem used by financial institutions or the transfer of funds. This new ystem should also have a strong npact on MBS volumes, since NHA IBS are securities that are eligible or use by financial institutions as ollateral for the LVTS. The amount f collateral required by each financial institution for LTVS use is estimated to be between $1 billion and $2 billion.

MBS Spreads

The spreads on most MBS pools have tightened from the levels recorded in the second quarter of 1998, although the spreads on both the prepayable and non-prepayable pools remain above historical levels. The five-year MBS-GOC bond spreads for prepayable and non-prepayable pools have changed slightly since the end of 1998, narrowing by 7 to 10 basis points (bps), to 46 bps and 25 bps respectively.

MBS market share by issuer type
First quarter of 1999



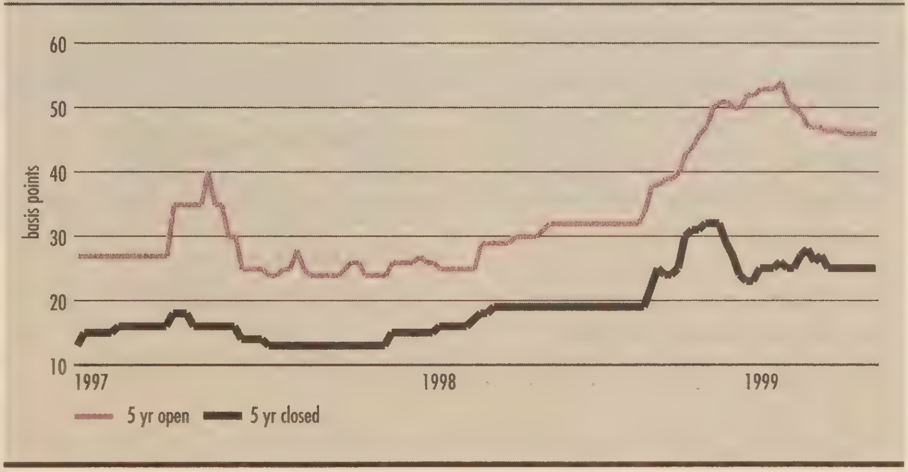
Source: CMHC, MBS Centre

CMHC – MAC 1999

New general manager for NHA MBS Program

It is with pleasure that we welcome Berta Zacardi as the new General Manager for the NHA MBS program. Berta has held a number of positions in her 17 years at CMHC. Before moving to NHA MBS, she was General Manager in the Prairie Region. ■

Tighter MBS spreads



Source: CMHC, MBS Centre, weekly spreads

CMHC – MAC 1999

NHA Mortgage-Backed Securities
January to March 1999

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: January 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-257	PAFCO INSURANCE COMPANY	3,868,568.31	5.400	2009-01-01	7.42	22.36
96-413-273	TORONTO-DOMINION BANK	500,042,354.02	5.500	2003-12-01	6.42	21.48
96-413-281	VANC. CITY SVGS. CREDIT UNION	19,406,411.02	5.250	2003-12-01	6.21	21.91
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-500-996	PEOPLES TRUST COMPANY	38,545,195.17	5.000	2009-01-01	6.01	24.22
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-477	HONGKONG BANK OF CANADA	12,521,477.12	5.500	2003-12-01	6.20	21.67
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-499	THE EQUITABLE TRUST COMPANY	10,101,267.32	5.250	2004-01-01	6.26	22.24
SOCIAL HOUSING POOLS						
99-007-916	TORONTO-DOMINION BANK	6,006,463.00	4.750	2003-01-01	5.43	35.00
99-007-924	TORONTO-DOMINION BANK	107,472,714.92	5.375	2024-01-01	5.91	28.83
MONTH OF ISSUE: February 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-299	FIRST HERITAGE SAVINGS CR.UN.	11,706,912.84	5.250	2004-02-01	6.07	22.19
96-413-307	M.R.S. TRUST COMPANY	5,971,078.75	5.150	2004-02-01	6.13	22.85
96-413-315	VANC. CITY SVGS. CREDIT UNION	16,761,654.17	5.100	2004-02-01	6.03	21.78
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-002	THE EQUITABLE TRUST COMPANY	20,906,234.68	5.500	2009-02-01	6.25	24.75
96-501-010	THE EQUITABLE TRUST COMPANY	21,651,903.23	5.250	2009-02-01	6.00	23.53
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-182	PEOPLES TRUST COMPANY	3,057,350.00	5.750	2019-02-01	6.34	20.00
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-485	HONG KONG BANK OF CANADA	10,236,370.14	5.250	2004-01-01	6.09	21.77
96-702-493	HONG KONG BANK OF CANADA	2,782,893.47	5.250	2002-02-01	6.07	21.37
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-507	BANK OF NOVA SCOTIA	143,310,714.90	5.000	2004-01-01	6.40	21.24
97-001-515	BANK OF NOVA SCOTIA	92,668,407.12	5.000	2004-01-01	6.41	20.09
97-001-523	BANK OF NOVA SCOTIA	238,195,851.61	5.000	2004-01-01	6.36	21.07
97-001-531	NATIONAL BANK OF CANADA	173,277,139.98	5.000	2003-11-01	6.60	21.99
97-001-549	SUN LIFE TRUST COMPANY	39,639,507.77	5.500	2004-02-01	6.30	22.79
97-001-556	CANADA TRUSTCO MORTGAGE CO.	553,850,348.81	5.000	2004-02-01	6.21	21.06
97-001-564	BANK OF MONTREAL	213,091,075.99	5.000	2003-07-01	6.25	23.31
97-001-572	BANK OF MONTREAL	313,129,503.07	5.000	2004-01-01	6.32	23.66
SOCIAL HOUSING POOLS						
99-007-932	BANK OF MONTREAL	8,406,752.40	4.875	2004-02-01	5.46	29.58
99-007-940	THE EQUITABLE TRUST COMPANY	24,727,065.26	5.600	2024-02-01	6.14	28.57
99-007-957	TORONTO-DOMINION BANK	2,195,000.00	4.875	2004-02-01	5.50	35.00

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE Interest (%)	WEIGHTED AVERAGE Amortization (yrs)
MONTH OF ISSUE: March 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-265	PAFCO INSURANCE COMPANY	8,412,057.11	5.450	2004-03-01	6.90	23.28
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-028	CIBC MTGS INC.(FIRSTLINE MTG)	13,123,705.76	5.250	2009-01-01	5.99	21.80
96-501-036	CIBC MTGS INC.(FIRSTLINE MTG)	5,285,149.79	5.000	2004-02-01	5.98	19.62
96-501-044	CIBC MTGS INC.(FIRSTLINE MTG)	27,884,508.48	5.450	2008-04-01	6.26	22.41
96-501-051	CIBC MTGS INC.(FIRSTLINE MTG)	13,415,711.90	5.150	2003-05-01	5.76	18.42
96-501-069	THE EQUITABLE TRUST COMPANY	8,670,622.39	5.250	2004-03-01	6.11	19.14
96-501-077	THE EQUITABLE TRUST COMPANY	4,961,725.00	5.625	2019-03-01	6.72	23.53
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-190	PEOPLES TRUST COMPANY	18,659,231.36	4.750	2004-03-01	5.94	22.90
96-601-208	PEOPLES TRUST COMPANY	10,065,704.52	5.125	2009-03-01	6.28	24.26
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-501	HONGKONG BANK OF CANADA	9,708,428.23	5.250	2004-02-01	6.06	21.76
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-580	CANADA TRUSTCO MORTGAGE CO.	124,548,453.17	5.000	2004-03-01	6.28	12.17
97-001-598	THE EQUITABLE TRUST COMPANY	7,445,425.12	5.250	2004-03-01	6.48	23.19
SOCIAL HOUSING POOLS						
99-007-965	TORONTO-DOMINION BANK	32,953,792.73	5.000	2004-03-01	5.52	27.24

*PIP stands for Penalty Interest Payment

MORTGAGE LENDING *cont'd*

continued from page 1

rose by 0.5 per cent. Lenders increasingly used both National Housing Act Mortgage-Backed Securities (NHA MBS) and Special Purpose Corporations (SPCs) to raise funds in the first quarter, and securitization remained strong for both.

Trend in market shares remains intact

The mortgage market structure changed little in the opening months of 1999 even though the chartered banks used residential mortgage securitization heavily through Special Purpose Corporations. The percentage of residential mortgage market loans outstanding, respectively, for chartered banks, trusts, credit unions, life insurance companies, and pension funds is now approximately 65, 6.0, 13.4, 5.1, and 2.0 per cent. ■

FINANCIAL SERVICES *cont'd*

continued from page 3

out from the competition instead of using the more traditional means of attracting clients, with prices and product choice. One thing is clear: the fragmentation of the residential renovation industry and the fragility of businesses in this sector could result in the rapid expansion of traditional business lines in large renovation centres. Companies that also offer financial services would have a significant competitive edge.

As for the second question, given current circumstances, financial institutions cannot know whether their physical presence in renovation centres will be truly profitable, if the only reason for them to expand in this area is to keep the competition out. ■

RESIDENTIAL MORTGAGE SECURITIZATION: A GROWING TREND

by Ali Manouchehri, Senior Economist - Capital Markets

Securitization of residential mortgages, introduced initially under the NHA MBS program in Canada in 1987, has expanded and flourished since 1996. Over the past three years, nearly $14 billion in residential mortgages have been securitized by Special Purpose Corporations alone. The current financial environment remains conducive to further development of the secondary mortgage market in Canada in 1999.

What is residential mortgage securitization?

Residential mortgage securitization involves the repackaging, enhancement, and sale of residential mortgages in pools attractive to investors. This process allows a lender to remove mortgage assets from its books and reduce its capital requirements. It also provides an alternative funding source, allowing the lender to fund new mortgages from the sale proceeds.

Residential mortgages are among the safest classes of assets to securitize, thanks to loan-to-value restrictions and low default rates. Credit enhancements, such as the use of spreads, make residential mortgages even more desirable for securitization.

Two main avenues used in residential mortgage securitization in Canada are National Housing Act Mortgage-Backed Securities (NHA MBS) and special-purpose vehicles, mostly through Special Purpose Corporations (SPCs).

National Housing Act Mortgage-Backed Securities

Canada Mortgage and Housing Corporation laid the foundation for the secondary residential mortgage market in Canada when it introduced National Housing Act Mortgage-Backed Securities in 1987.

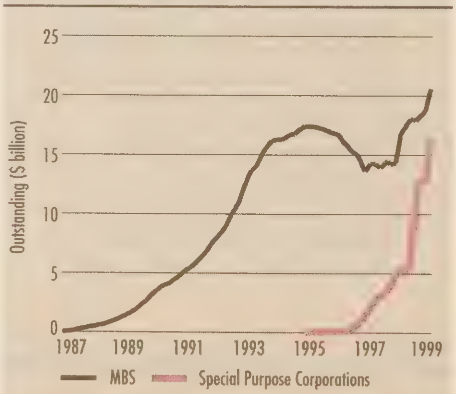
The purposes of the NHA MBS program were to provide a mechanism through which residential mortgages could be financed at reasonable rates from private investment funds, and to promote a well-functioning secondary market.

Many lenders have subscribed to the NHA MBS program in varying numbers over the years, depending on the funding alternatives available. Chartered banks have been the main users of NHA MBS in recent years, in contrast to previous years, when trust companies utilized the program more heavily. The $9.1 billion of NHA MBS issued in 1998 represented a new record for the program, and the volume outstanding amounted to $20.1 billion by March 1999.

Special Purpose Corporations

Special Purpose Corporations, introduced in 1992, have grown substantially since 1996. SPCs' residential mortgage credit outstanding grew from $11 million in January 1995 to $16.5 billion by March 1999. The amount has tripled in the past nine months alone.

Residential mortgage securitization



Source: CMHC, Bank of Canada CMHC – MAC 1999

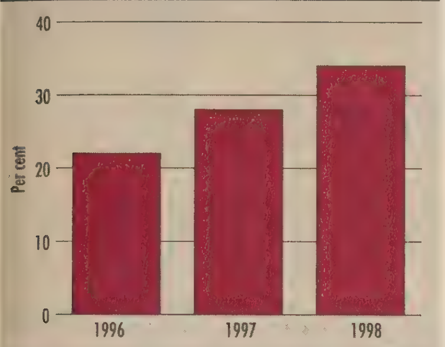
An SPC is a conduit, normally a single purpose trust, which purchases financial assets, such as residential mortgages, from financial institutions or other corporations. The conduit pays for the assets by issuing its own debt. There are two types of conduits: the multi-seller, which can purchase financial assets from a wide range of companies, and the single seller, which purchases financial assets from only one seller. The conduits sponsored by lenders are usually multi-sellers; single-sellers are often sponsored by a manufacturer.

Residential mortgages purchased by the conduits usually have terms of between one and five years and loan-to-value ratios of less than 75 per cent. Some loans are insured under NHA, while others are conventional mortgages for which the seller provides credit enhancement through a variety of means. Enhancements are required to compensate investors for potential declines in property prices, mortgage delinquency risk, and disposal costs and prepayments. As such conduits become more standard, it is more efficient and easier to construct, manage, dispose of, and rate them.

The most popular bank assets securitized in 1998 were conventional residential mortgages, which jumped nearly fivefold to reach $10

continued from page 10

Share of residential mortgages in Canadian asset backed securities market



Source: DBRS, 1998 Year-end review of Canadian Asset Backed Securities CMHC – MAC 1999

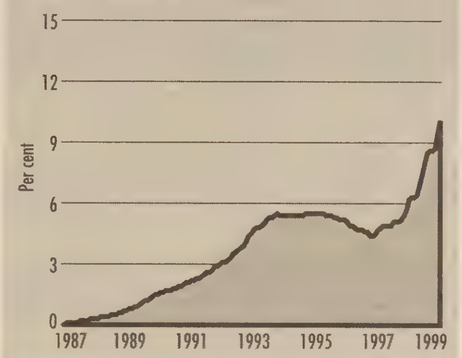
billion. Securitized residential mortgages, conventional and NHA, accounted for 34 per cent of the Canadian Asset Backed Securitized outstanding market, up from 22 per cent in 1996 according to the DBRS 1998 year-end review of Canadian Asset Backed Securities.

Securitization remains limited for sub-prime residential loans granted to individuals with imperfect credit histories. Conduits for sub-prime loans are more costly, and are therefore not as common as those meeting underwriting standards by lenders and CMHC.

Who is behind the growth of SPCs?

Virtually all conduits that have a large residential mortgage component have been set up by chartered banks. The banks found this method of raising funds attractive, particularly in 1997-98. Strong performance of mutual funds in the 1990s has attracted an ever-increasing share of deposits (the traditional source of mortgage funding by the chartered banks), encouraging lenders to utilize alternative funding mechanisms.

Residential mortgage credit outstanding Ratio of secondary to primary



Source: CMHC, Bank of Canada CMHC – MAC 1999

NHA MBS and single-purpose trusts will play an increasingly significant role in the development of the secondary mortgage market in Canada. A wider and deeper secondary mortgage market, developed through securitization, benefits investors by providing more suitable cash flow characteristics, and benefits borrowers by reducing the cost of funding mortgages and offering lower mortgage rates. ■

NHA MORTGAGE-BACKED SECURITIES

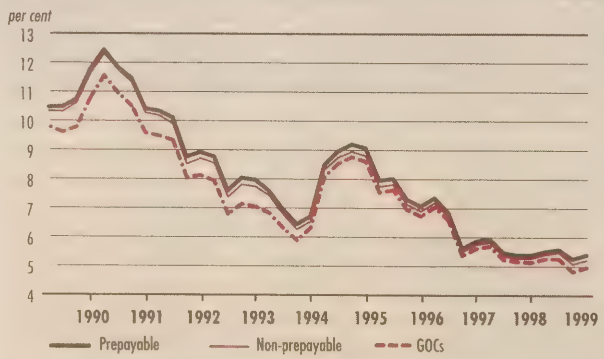
(AVERAGE OF PERIOD EXCEPT WHEN INDICATED)

		1997	1998	98Q1	98Q2	98Q3	98Q4	99Q1
OUTSTANDING AMOUNT (END OF PERIOD)								
TOTAL	$million	14,787.4	19,100.9	17,404.2	18,300.3	18,289.8	19,100.9	21,001.
	Units	1,251	1,152	1,233	1,223	1,188	1,152	1,13
Residential, single (with PIP) (1)	$million	2,961.7	1,962.2	2,835.5	2,457.5	2,141.9	1,962.2	2,205.
	Units	581	434	542	517	481	434	40
Residential, single (no PIP)	$million	1,383.6	1,398.2	1,397.2	1,377.5	1,368.4	1,398.2	1,339.
	Units	191	213	200	204	208	213	21
Residential, single (no PIP with indemnity) (2)	$million	4,371.0	10,029.0	7,525.0	9,042.0	9,116.0	10,029	11,607.
	Units	60	143	96	125	133	143	15
Residential, multiple	$million	$1,580.3	$1,414.3	$1,538.3	$1,522.6	$1,375.8	$1,414.3	$1,389.
	Units	87	97	87	91	91	97	9
Social Housing	$million	$4,048.6	$3,425.0	$3,590.7	$3,268.3	$3,463.7	$3,425.0	$3,444.
	Units	279	190	249	218	204	190	17
Mixed	$million	$442.5	$872.1	$517.6	$632.1	$823.9	$872.1	1,015.
	Units	53	75	59	68	71	75	8
ISSUES (TOTAL OF PERIOD)								
TOTAL	$million	6,949.0	9,075.6	3,701.7	2,298.2	1,380.4	1,695.3	2,878.
	Units	238	212	65	66	42	39	4
Residential, single (with PIP)	$million	$532.8	$386.5	$167.1	$65.8	$60.4	$93.2	$566.
	Units	43	32	10	7	9	6	[illegible]
Residential, single (no PIP)	$million	$679.8	$313.3	$88.2	$58.0	$69.6	$97.5	$35.
	Units	60	27	9	6	6	6	[illegible]
Residential, single (no PIP with indemnity) (2)	$million	4576.7	6,664.0	3,283.0	1,760.0	398.0	1,223.0	1,909.
	Units	60	83	36	29	8	10	1
Residential, multiple	$million	$329.2	$157.6	$10.0	$53.5	$11.6	$82.5	$31.
	Units	29	18	1	6	2	9	[illegible]
Social Housing	$million	$568.3	$1,015.3	$67.0	$234.1	$577.6	$136.6	$181.
	Units	21	23	2	8	9	4	[illegible]
Mixed	$million	$262.2	$538.6	$85.8	$127.1	$263.3	$62.4	$154.
	Units	25	29	7	10	8	4	[illegible]
YIELDS (5-YEAR MATURITY, %)								
MBS Prepayable (with PIP)		5.66	5.43	5.39	5.39	5.56	5.26	5.4
MBS Prepayable (no PIP)		5.73	5.49	5.46	5.47	5.62	5.32	5.4
MBS Non-prepayable		5.56	5.34	5.29	5.29	5.48	5.10	5.2
MBS Non-Prepayable Multi-Family Pools		5.62	5.39	5.37	5.38	5.54	5.16	5.2
Mortgage rates		7.07	6.93	6.82	6.85	7.08	6.83	6.9
GOCs		5.43	5.13	5.17	5.15	5.27	4.83	4.9
SPREADS OVER GOC (5-YEAR MATURITY,%)								
Prepayable (with PIP)		0.23	0.30	0.22	0.23	0.29	0.43	0.4
Prepayable (no PIP)		0.30	0.35	0.29	0.31	0.35	0.49	0.4
Non-prepayable		0.13	0.21	0.12	0.13	0.21	0.28	0.2
MBS Non-Prepayable Multi-Family Pools		0.19	0.26	0.20	0.23	0.26	0.33	0.31
Mortgage rates		1.64	1.80	1.65	1.70	1.81	2.01	1.9

(1) PIP stands for Penalty Interest Payments (2) For the first quarter of 1997 these pools were issued as pool 967 but subsequently transferred to pool 970 in June 1997.
Not seasonally adjusted data.

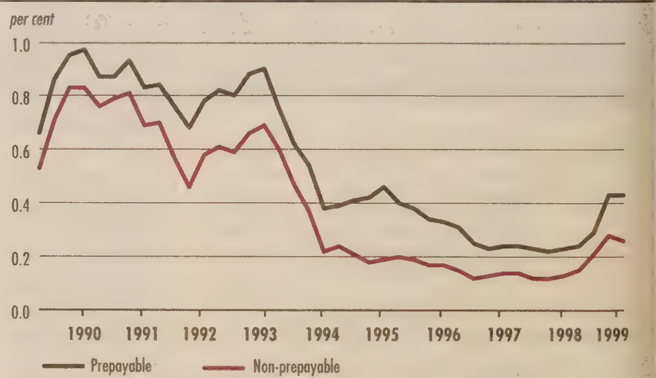
Sources: Nesbitt Burns; CMHC. CMHC – MAC 199

Selected interest rates
(5-year maturity)



Source: Nesbitt Burns. CMHC – MAC 1999

Spreads over GOCs
(5-year maturity)

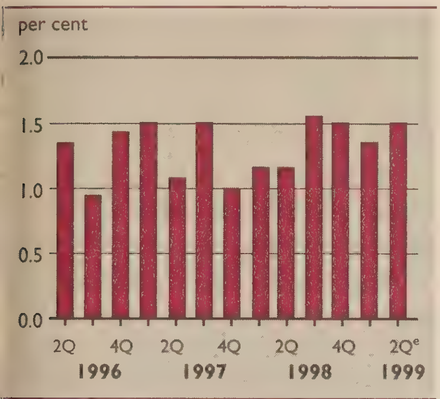


Source: Nesbitt Burns. CMHC – MAC 199

MORTGAGE MARKET TRENDS

Market Analysis Centre Third Quarter 1999

Residential mortgage credit growth* (from previous quarter)



** nominal e: estimate*
Sources: Bank of Canada; CMHC. CMHC–MAC 1999

Market share of residential mortgage credit^e (%)

	2Q98	3Q98	4Q98	1Q99	2Q99^e
Banks	63.5	64.4	64.8	65.1	65.3
Trusts	6.4	6.2	6.0	6.0	5.9
Caisses & Co-op	13.8	13.6	13.5	13.5	13.4
Life	5.5	5.3	5.1	4.9	4.8
Pension Funds	2.1	2.1	2.0	2.0	2.0
Fin. & Loan	8.6	8.5	8.6	8.5	8.5

e: estimate
Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC. CMHC–MAC 1999

INSIDE

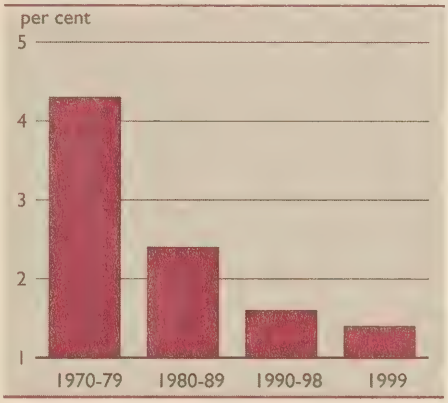
ACTIVE HOUSING MARKETS HELP LIFT MORTGAGE LENDING

by Ali Manouchehri, Senior Economist - Capital Markets

Rising home sales and housing starts, coupled with larger mortgages and stable prepayments, helped mortgage credit grow 1.5 per cent in the second quarter of 1999. Mortgage loans outstanding reached $407.3 billion in the spring from $401.6 billion in the previous quarter.

Calmer global financial markets and an improved domestic economic outlook allowed the housing market to march ahead in the second quarter of 1999 despite higher mortgage rates. A broadly based active housing market in the second quarter of 1999 led to a healthy growth of 1.5 per cent in mortgage credit outstanding, up from 1.2 per cent in the same period a year ago, thanks to stable prepayments and higher lending. Nevertheless, the pace remains far below the 4.3 per cent average quarterly growth rates of the 1970s and the 2.4 per cent experienced during the 1980s, and should help sooth concerns over the mounting residential mortgage debt.

Mortgage credit outstanding average quarterly growth rate



Source: CMHC
Data for 1999 covers up to June CMHC–MAC 1999

Continued on page 6

CMHC SCHL

HOME TO CANADIANS

Canada

RETURN ON RENTAL APARTMENTS STILL ATTRACTIVE

by Joel Starkes, Treasury Officer - Capital Markets

Existing rental apartments have generally provided stable and positive cash flows to investors in the 1990s while offering lower volatility than both bonds and stocks. They have also outperformed other real estate assets this decade and continue to deserve a close look by investors.

Investment in residential real estate in the 1990s has been hampered by poor economic fundamentals, including low job creation and income growth relative to the previous decade. Only in the last two years has the Canadian economy witnessed growth reminiscent of the roaring 1980s. During the most recent nine year period, from 1990 to 1998, about 1.6 million jobs were created, considerably fewer than the 2.2 million jobs created between 1980 and 1988, and the ratio of full-time to total employment is only now returning to levels seen before the last Canadian recession in the early nineties. Unfortunately, even with the upward trend in full-time employment since 1997, slowing demand due to demographic factors has generally limited price appreciation of residential real estate assets; house prices in most metropolitan markets remain below levels seen in the late eighties.

Existing rental apartments performed well in 1990s

Income-generating existing apartment properties have outperformed most other real estate assets this decade and deserve a second look by investors.

From an investor's perspective, apartment properties generally provide stable, positive cash flows, according to data provided by Frank Russell Company[1] for the years 1990 to 1999. In fact, the volatility of returns from apartment properties has been substantially less than for both stocks and bonds. Using standard deviation as the measure of volatility, the total return from the Russell Apartment Index during that period deviated, on average, only 2.0 per cent from its mean, considerably less than the 4.5 per cent measured for the Scotia Capital Markets Long Bond Index and substantially less than the 7.5 per cent for the Toronto Stock Exchange 300 Composite Index.

Furthermore, the rate of return measured by the Frank Russell Apartment Index has matched comparable returns from the TSE 300 Composite Index and the Scotia Capital Markets Long Bond Index since 1996. In typical risk-reward trade-off, the cost of less risk for apartment properties has generally come in the form of lower returns. However, in the last year or so, the Russell Apartment Index has matched the comparative bond index and exceeded the equity index, providing some investors with the double payoff of more return for less risk. While the evidence is only suggestive, a case ca be made that apartment properties prc vide an excellent opportunity to diversif a traditional asset portfolio.

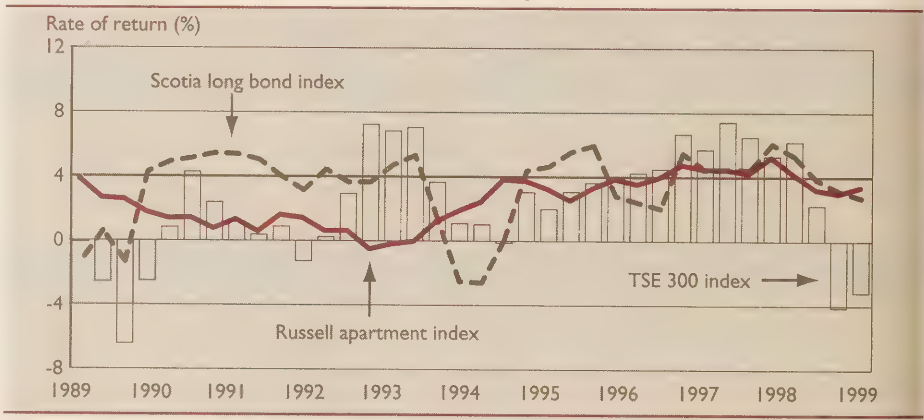
Rental apartments offer limited risk and attractive return

One reason for the favourable risk profil of apartment properties is that, as pre dominantly long-term investments, the typically generate returns without th large swings in value that accompan shorter term financial assets, where th flow of funds tends to be both large an frequent. Returns on rental apartment also tend to be limited on both the upsid and the downside. While positive return are constrained by rent controls and market conditions in some cities, negative returns are also limited by the fact tha rents tend to be "sticky" downward.

Supportive economic fundamentals

Another important factor affecting the risk-return economics of apartment investment is supply and demand. In the last decade, demographic trends, like the reduced number of family households, have generally limited the attractiveness of most residential real estate; but socio-economic trends, including an increase in non-family

Apartment real estate assets show stability



Source: CMHC Housing Facts, Frank Russell Company, Statistics Canada *CMHC – MAC 1999*

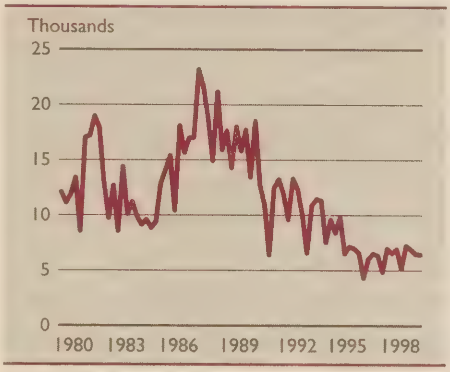
[1] Russell Canadian Property Index: Performance Report, Frank Russell Company, 1999.

households and the limited affordability of single homes for younger age groups, bode well for multi-family housing, including apartments. As well, the strong growth in youth and full-time job creation since 1998 should translate into more demand for rental accommodations in the future. CMHC estimates that the number of apartment renters could potentially grow, on average, by 40,000 per year between 2001 and 2006[2], up sharply from an average of 26,600 a year between 1991 and 1996. On the other side of the equation, the supply stream of new apartment units has slowed considerably. Apartment starts have declined from 14,000 units in the 1980s to about 8,800 units in this decade, and the number reached 6,500 units in early 1999. New supply has been constrained by an increase in the cost of new rental apartment construction, to the point where the rate of return in most markets is not high enough to justify building. It makes more economic sense to invest in existing apartment properties.

Developers are looking for a 15 per cent return on investment

A new CMHC report, *Understanding Private Rental Housing Investment in Canada*, indicates that developers of rental apartment properties are looking for a 15 per cent return on investment. However, of the six major markets studied, only Halifax could satisfy this requirement for new development, and then only marginally. Developers are having trouble breaking into double-digit returns even in tight rental markets like Calgary and Toronto, where vacancy rates are below one per cent. Development costs, taxes and others fees present a major impediment to new development of rental housing, while maintenance and renovation costs impede interest in Canada's ageing existing rental housing stock. That said, however, investment in existing rental housing is still much more viable than in new rental housing in most markets.

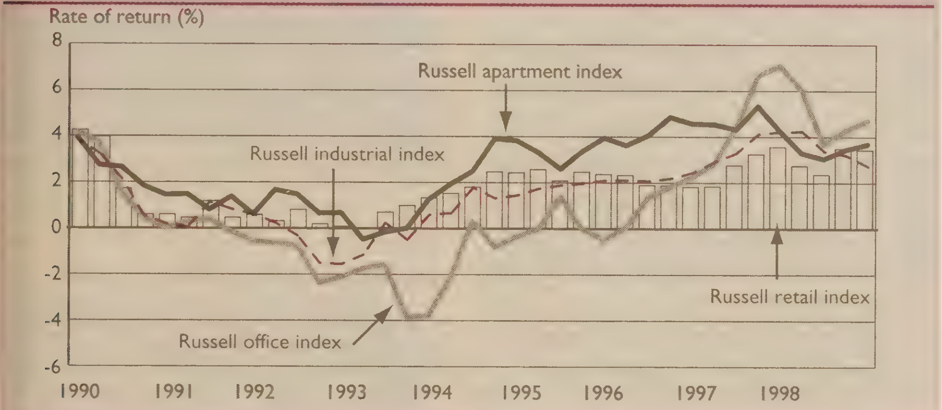
Apartment starts trend lower in 1990s...



Source: CMHC *CMHC – MAC 1999*

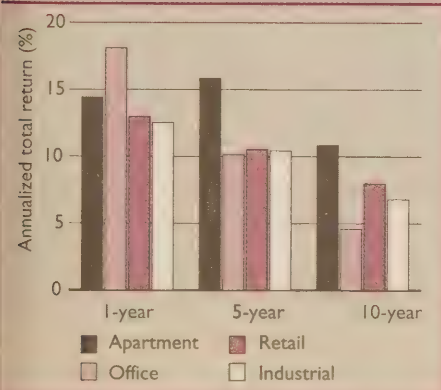
Apartments hold own versus other real estate assets:

Real estate returns compared...



Source: Frank Russell Company *CMHC – MAC 1999*

Apartments better in long run



Source: CMHC
Data for 1999 covers up to June *CMHC–MAC 1999*

Compared with competing real estate assets, apartment properties fare very favourably. In fact, over the period 1990-1998, apartment properties had the highest annualized return and solidified their role as a relatively safe long-term holding. As indicated in the graph, office properties have been the most volatile of the real estate assets, falling well into negative territory during the 1991-92 recession before gaining almost 12 per cent from trough to peak in the most the recent real estate cycle.

Rental Financial Performance (1-year) cash-on-cash returns (cashflow/equity)

	New Units	Existing Units	Vacancy Rate
Halifax	18.0%	25.1%	5.5%
Montreal	6.3%	18.4%	4.7%
Toronto	4.2%	16.5%	0.8%
Winnipeg	10.1%	18.5%	4.0%
Calgary	8.6%	8.5%	0.6%
Vancouver	4.2%	5.2%	2.7%

Source: CMHC, Frank Russell Company

Future looks positive

With projected demand exceeding supply, rental housing in Canada will continue to create promising opportunities for investors while preserving the favourable risk profile inherent in rental properties in the last decade, including generally stable, positive returns. In addition, legislative changes, like the new Tenant Protection Act in Ontario, could pave the way for higher rents in the near future. This type of legislation could have a significant impact on the economics of rental investment, and on the potential for income growth on revenue properties. ■

2 The long-term housing outlook, Household growth in Canada and provinces, 1991-2016, CMHC, 1997.

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	1998	98Q2	98Q3	98Q4	99Q1	99Q2
Total	350,158	368,506	387,852	384,459	390,669	396,347	401,502	407,325
% change	4.1	5.2	5.2	1.2	1.6	1.5	1.3	1.5
Banks	198,720	221,927	248,143	244,302	251,411	257,024	261,208	266,170
Trust Co.	42,105	33,681	24,442	24,638	24,047	23,906	24,061	24,204
Caisses & Co-op	49,322	51,686	53,144	53,128	53,156	53,412	54,032	54,649
Life Ins. Co.	22,713	22,071	20,797	21,224	20,669	20,054	19,863	19,613
Pension Funds	7,724	7,983	7,983	8,002	8,074	8,006	8,016	8,107
Fin. & Loan	29,573	31,160	33,343	33,166	33,313	33,946	34,322	34,582

(1) Seasonally Adjusted Data (e) Estimate
Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

NHA and Conventional loans approved[1]

		1997	1998	98Q2	98Q3	98Q4	99Q1
Total	$ millions	75,317	71,861	20,937	19,048	16,742	17,001
	Units	839,107	755,003	219,812	194,213	181,428	182,657
NHA	$ millions	31,155	30,197	9,284	7,417	6,556	7,850
	Units	352,680	333,004	101,167	79,873	76,356	91,042
Conventional	$ millions	44,163	41,664	11,653	11,631	10,186	9,151
	Units	486,427	421,999	118,645	114,340	105,072	91,615
By type of lender							
Banks	$ millions	57,245	55,162	16,174	14,573	12,807	12,851
	Units	602,149	549,170	160,646	142,161	132,683	131,513
Trust Co.	$ millions	7,302	5,954	1,812	1,615	1,290	1,172
	Units	79,727	66,695	20,907	18,269	14,100	12,617
Life Ins. Co.	$ millions	2,718	1,474	428	347	308	317
	Units	48,048	27,103	7,838	5,387	5,445	5,570
Others	$ millions	8,053	9,271	2,524	2,512	2,338	2,661
	Units	109,183	112,035	30,421	28,396	29,200	32,957

(1) Not Seasonally Adjusted
Source: CMHC.CMHC – MAC 1999

Mortgage rates (%) (Average of period)

	1996	1997	1998	98Q2	98Q3	98Q4	99Q1	99Q2
1-Year Mortgage Rate	6.19	5.54	6.50	6.55	6.68	6.37	6.42	6.45
3-Year Mortgage Rate	7.33	6.56	6.77	6.80	6.93	6.63	6.77	7.07
5-Year Mortgage Rate	7.92	7.07	6.93	6.95	7.08	6.83	6.92	7.32

Sources: Bank of Canada; CMHC *CMHC–MAC 1999*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506 . Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Berta Zaccardi, General Manager, MBS Centre, CMHC, Toronto Tel.: (416) 218-3416.

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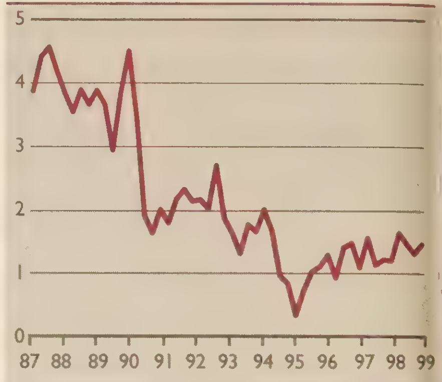
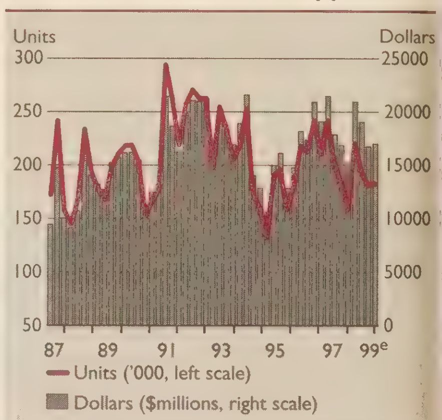
Quarterly residential mortgage credit growth (%)



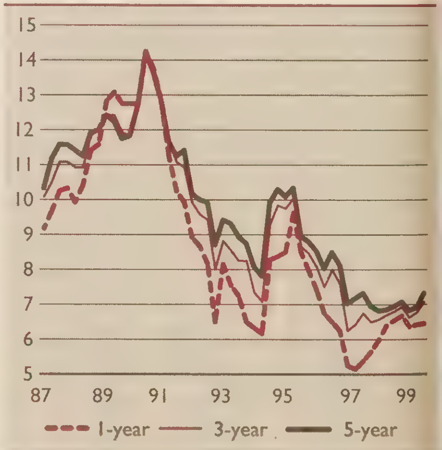
Sources: Bank of Canada; CMHC. CMHC–MAC 1999

NHA and Conventional approvals



Sources: Bank of Canada; CMHC. CMHC–MAC 1999

Mortgage rates (%)



Sources: Bank of Canada; CMHC. CMHC–MAC 1999

NHA Mortgage-backed securities

RECORD VOLUMES AND PROGRAM ENHANCEMENTS FOR 1999

by Ian Witherspoon, Senior Program Officer, MBS

NHA MBS marched on to set a new record in the second quarter of 1999 with $3 billion in new issues. Prospects for the second half of the year are promising, aided by amendments to the documentation requirements for NHA MBS.

Second quarter issuance sets new record

Record volumes of new NHA MBS were issued in the second quarter of this year. During the three-month period from April to June, a total of $3 billion of new NHA MBS were issued. The market for NHA MBS has exhibited strong growth over the past two years, following the intro-duction of 970 single-family indemnity pools[1].

A total of $5.95 billion in NHA MBS securities were issued in the first half of 1999, comprising 86 pools and involving 19 financial institutions. Market demand for larger MBS pools has re-sulted in average pool size increasing from $30 million just two years ago to $69 million in the first half of 1999.

All indications are pointing toward strength in the second half of the year as well. Market condi-tions are expected to remain positive for NHA MBS issuance, and many financial institutions have indicated that they will remain active during the second half of the year. Another positive factor will be the amendments to the documentation requirements announced by CMHC in May 1999. CMHC is forecasting a new record volume for NHA MBS issuance in 1999, of $10 billion.

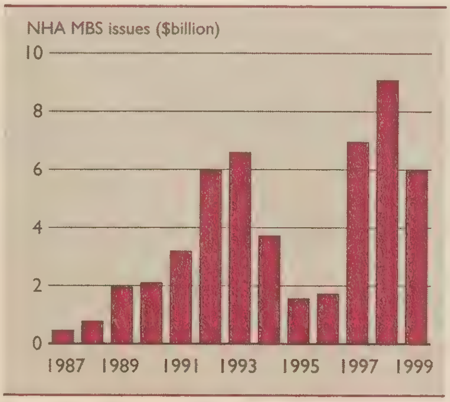
Single family indemnity pools drive volume growth

The single-family mortgage pool types continue to lead the way in the first half 1999. In par-ticular, the 970 indemnity pools are the pool of choice, with more than $3.6 billion issued, repre-senting 62 per cent of all pools issued this year. The 970 pool type is favoured by many larger issuers, and this is reflected in the size of the individual pools, which averaged $191 million dur-ing the first six months of 1999.

The second largest pool type issued was the 964 single-family penalty interest pool type. Dur-ing the first half of 1999, a total of more than $1 billion in NHA MBS were issued under the 964 pool type. Many regional issuers continue to prefer the 964 pool type, and their increased lending activity has contributed to some resurgence in the volume of 964 pools issued this year. ■

1 For definition of pool type, please see page 8.

NHA MBS issues ($billion)

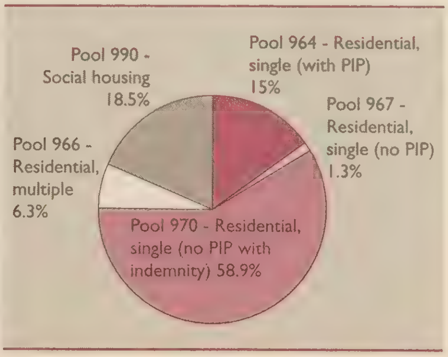


Source: CMHC, data for 1999 covers the first half of the year. *CMHC–MAC 1999*

CHANGES TO THE NHA MBS PROGRAM

At the annual general meeting of the MBS Issuers' Association held on May 26, 1999, Karen Kinsley, CMHC Vice-President, Insurance, announced the elimination of the requirement for issuers to provide duplicate registered mortgages (DRM) at the initial issuing stage. In its place, CMHC is adopting documentation trigger events to identify if and when an issuer will provide mortgage documentation, a procedure more consistent with other mortgage securitization vehicles. The details of the documentation trigger events will be communicated to issuers in August and will be effective for all pools issued after June 1, 1999. This change represents a tremendous improvement in the overall issuing process for NHA MBS. It represents a significant reduction in the direct costs associated with issuing NHA MBS for issuers as well as additional savings due to the reduced documentation requirements.

NHA MBS issues by pool type
Second quarter 1999



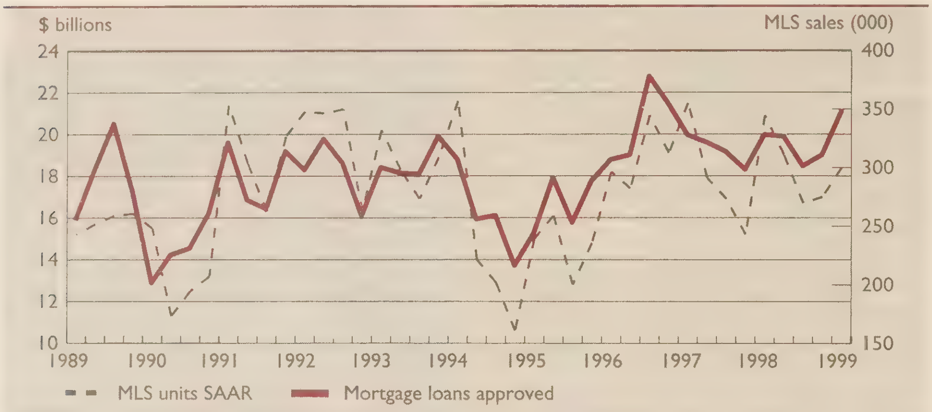
Source: CMHC *CMHC–MAC 1999*

Higher home sales set the tune

New mortgages accounted for 4.2 per cent of outstanding mortgages in the first quarter of this year, an improvement over the 4.0 per cent registered a year ago. Active residential real estate markets led to higher sales in the second quarter of mortgage lending and credit outstanding as housing starts strengthened in the second quarter of the year.

In addition to higher housing starts and sales, the average mortgage size edged up to reach $93,000. This level also

Mortgage approvals move in tandem with home sales



Source: CMHC, Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association *CMHC–MAC 1999*

1999 and set the stage for the expansion of mortgage lending. Over 180,000 new residential mortgage loans, totalling nearly $17 billion, were approved in the first quarter of 1999, up by $258 million from the previous quarter.

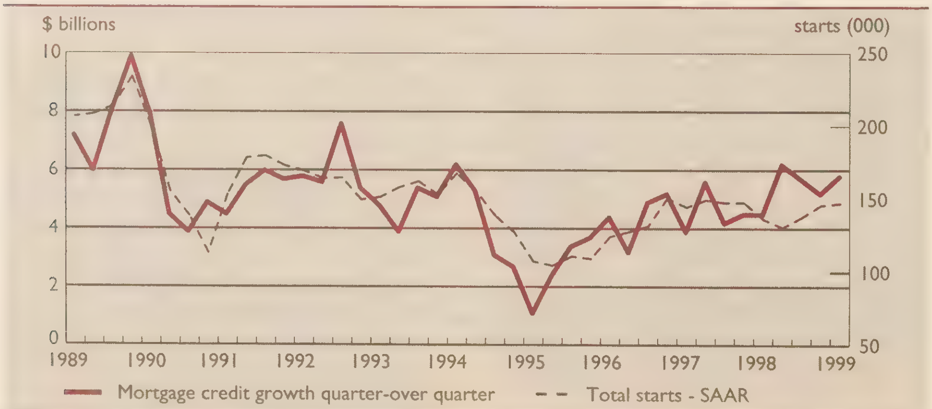
Stronger new homes market lends a helping hand

While home sales are an immediate driver of new mortgage loans, housing starts are the main force behind mortgage credit growth in the long run. New construction contributed to growth in contributed to the rise in mortgage lending and credit outstanding.

Stable mortgage repayments did their share

Higher mortgage rates gave borrowers an opportunity to reassess their borrowing and repayment strategies in the opening months of 1999. The repayment level of 3.0 per cent of mortgage loans outstanding was less than the 3.8 per cent observed between 1996 and 1998, when near-record low mortgage rates boosted repayments.

Growth in mortgage credit follows housing starts



Source: CMHC *CMHC–MAC 1999*

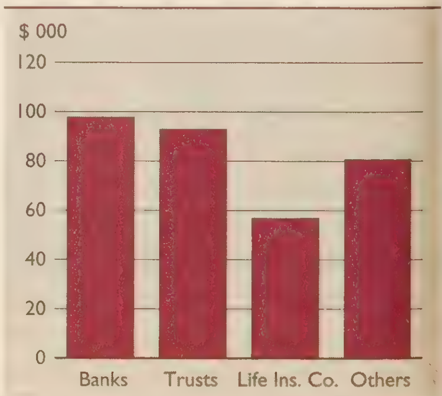
Mortgage lending set to advance steadily

Total mortgage credit outstanding is expected to increase at its current pace over the next few months. The weak job and income growth in the second quarter of 1999 could slow home sales, housing starts and mortgage lending over the coming months unless the pace of economic activity increases or mortgage rates decline.

Mortgage market structure will remain stable

Recent trends in market share by institution type will continue, with chartered banks accounting for approximately 75.6 per cent of mortgage initiation and 65.3 per cent of the outstanding mortgage loans. Chartered banks also offer their clients larger mortgages, on average. Credit unions continue to retain their second place position, holding a market share of nearly 13.4 per cent of residential mortgage lending. Trusts captured 6.9 per cent of new residential mortgage business in the second quarter, while their share of mortgage loans outstanding nudged down to 5.9 per cent. The market share of new mortgages initiated by life insurance companies also edged down, to 1.9 per cent. These companies now hold 4.8 per cent of outstanding mortgage loans. ■

Size of mortgage loans by lender type - first quarter of 1999



Source: CMHC
Data for 1999 covers up to June *CMHC–MAC 1999*

NHA MORTGAGE-BACKED SECURITIES APRIL TO JUNE 1999

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST (%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
MONTH OF ISSUE: April 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-323	M.R.S. TRUST COMPANY	8,542,704.60	5.700	2008-12-01	6.62	20.91
96-413-349	M.R.S. TRUST COMPANY	7,996,306.83	5.550	2009-04-01	6.35	22.08
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-93	PEOPLES TRUST COMPANY	14,587,893.29	5.000	2004-04-01	6.07	20.24
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-519	HONGKONG BANK OF CANADA	7,534,659.99	5.250	2004-03-01	6.11	21.57
96-702-527	HONGKONG BANK OF CANADA	3,178,597.85	5.000	2002-04-01	6.00	21.24
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-614	NATIONAL BANK OF CANADA	141,236,105.55	4.875	2004-02-01	6.47	21.75
SOCIAL HOUSING POOLS						
99-007-973	TORONTO-DOMINION BANK	5,269,879.00	5.250	2003-04-01	5.91	35.00
99-007-981	TORONTO-DOMINION BANK	162,739,625.56	5.500	2024-04-01	6.12	29.41
99-007-999	TORONTO-DOMINION BANK	3,235,107.36	5.250	2004-04-01	5.86	21.43
99-008-005	BANK OF MONTREAL	23,231,622.71	5.375	2009-04-01	5.88	28.14
99-008-013	CIBC MTGS INC.(FIRSTLINE MTG)	3,338,354.62	5.375	2002-05-01	6.42	18.08
MONTH OF ISSUE: May 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-331	PAFCO INSURANCE COMPANY	9,082,s355.31	5.150	2004-05-01	6.92	23.41
96-413-356	M.R.S. TRUST COMPANY	8,537,574.51	5.050	2004-05-01	6.15	22.33
96-413-364	TORONTO-DOMINION BANK	404,317,013.94	4.875	2004-04-01	6.29	20.88
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-085	MARITIME LIFE ASSURANCE CO.	17,532,316.25	5.000	2004-05-01	5.90	17.62
96-501-101	PEOPLES TRUST COMPANY	6,783,255.00	5.500	2019-05-01	6.36	25.00
96-501-119	THE EQUITABLE TRUST COMPANY	29,146,053.41	5.350	2009-05-01	6.37	24.97
96-501-127	CIBC MTGS INC.(FIRSTLINE MTG)	5,442,446.72	4.750	2004-04-01	6.25	12.89
96-501-135	CIBC MTGS INC.(FIRSTLINE MTG)	14,727,161.93	5.550	2009-04-01	6.66	23.51
96-501-143	CIBC MTGS INC.(FIRSTLINE MTG)	19,921,625.22	5.250	2004-05-01	6.16	21.93
96-501-150	CIBC MTGS INC.(FIRSTLINE MTG)	3,108,997.99	5.750	2018-09-01	6.25	24.42
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-141	MARITIME LIFE ASSURANCE CO.	13,913,219.94	5.250	2009-05-01	5.95	19.25
96-601-216	SUN LIFE ASSURANCE CO. CANADA	52,349,403.42	5.350	2008-01-01	6.68	20.43
96-601-224	PEOPLES TRUST COMPANY	7,507,194.26	5.500	2007-01-01	7.25	19.67
96-601-232	M.R.S. TRUST COMPANY	12,563,000.00	5.150	2009-05-01	5.67	25.00
96-601-240	PEOPLES TRUST COMPANY	22,060,561.63	5.200	2009-05-01	6.29	24.30
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-535	HONGKONG BANK OF CANADA	10,738,808.47	5.250	2004-04-01	6.26	21.94
96-702-543	FORTIS TRUST	2,258,793.62	5.500	2002-12-01	7.35	23.44
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-622	CANADA TRUSTCO MORTGAGE CO.	313,171,935.07	5.000	2004-05-01	6.17	20.95
SOCIAL HOUSING POOLS						
99-008-021	BANK OF NOVA SCOTIA	93,782,059.92	5.300	2024-05-01	5.83	28.88
99-008-039	BANK OF NOVA SCOTIA	6,669,696.67	4.700	2004-05-01	5.27	17.00

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST (%)	AMORTIZATION (YRS
MONTH OF ISSUE: June 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-168	THE EQUITABLE TRUST COMPANY	12,534,566.67	5.350	2004-06-01	6.24	21.14
96-501-176	THE EQUITABLE TRUST COMPANY	14,180,015.90	5.700	2009-06-01	6.40	23.26
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-257	TORONTO-DOMINION BANK	32,128,685.22	5.800	2016-04-01	7.02	22.32
96-601-265	PEOPLES TRUST COMPANY	25,685,379.19	5.100	2004-06-01	5.89	20.80
96-601-273	PEOPLES TRUST COMPANY	17,389,773.87	5.950	2014-06-01	7.05	30.31
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-550	HONGKONG BANK OF CANADA	11,954,887.63	5.000	2004-05-01	6.12	21.84
96-702-568	HONGKONG BANK OF CANADA	3,012,221.11	5.250	2002-06-01	6.21	21.43
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-606	THE EQUITABLE TRUST COMPANY	6,428,956.88	5.700	2009-05-01	6.40	20.85
97-001-630	ROYAL BANK OF CANADA	899,981,117.05	5.000	2002-12-01	6.30	20.12
97-001-648	ROYAL BANK OF CANADA	144,982,379.12	5.000	2002-12-01	6.40	11.30
97-001-655	NATIONAL BANK OF CANADA	78,051,547.68	5.500	2008-12-01	6.77	21.35
97-001-663	NATIONAL BANK OF CANADA	135,940,064.76	5.000	2004-04-01	6.24	21.96
97-001-671	LA CAISSE CENTRALE DESJ.QUEBEC	8,409,332.20	5.500	2003-11-01	6.48	21.67
SOCIAL HOUSING POOLS						
99-008-047	TORONTO-DOMINION BANK	14,812,008.00	5.125	2004-06-01	5.75	34.32
99-008-054	TORONTO-DOMINION BANK	230,914,243.88	5.600	2024-06-01	6.10	29.69

*PIP stands for Penalty Interest Payment

Definition of MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

WHY DO BORROWERS CHOOSE LONGER TERM MORTGAGES?

by Louis Trottier, Economist, and Ali Manouchehri, Senior Economist - Capital Markets

Today's mortgage borrowers have a variety of options available to them, including those for mortgage terms, prepayment options and lenders. Despite higher costs, borrowers have traditionally selected longer term mortgages as a form of insurance against unexpected mortgage rate changes. Since 1997, an increasing proportion of borrowers have opted for longer term mortgages in response to low mortgage rates and a wider selection of mortgage products.

Home buyers pay a premium for longer mortgage terms

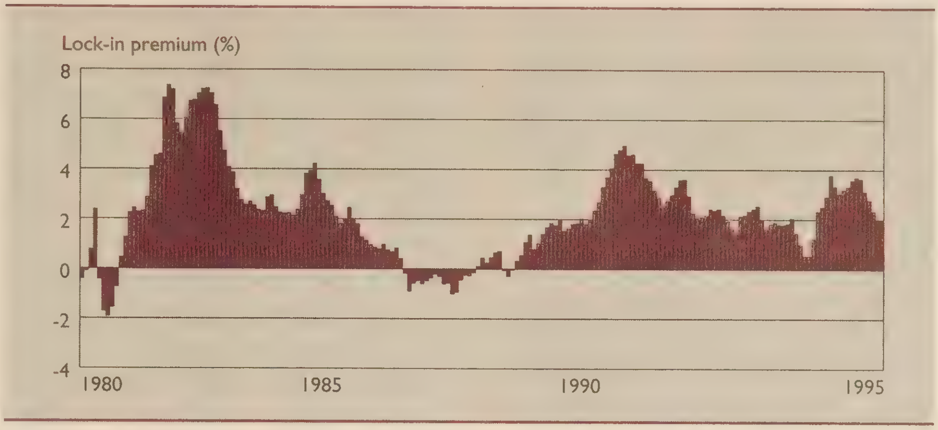
To assess how well mortgage borrowers have fared in minimizing their mortgage interest costs, we developed the measure of effective mortgage rate differential between five-year and one-year mortgage rates over five-year moving spans between January 1980 and July 1999. We call this the "mortgage-lock-in premium1." It assumes that a borrower has the option every year of taking on a five-year mortgage term or a one-year term at the rate then prevailing. Any additional costs for renewing the mortgage contract annually are ignored as minor. This measure also assumes that there is no difference in mortgage principal between the two alternatives terms.

Our analysis of the lock-in-premium for the years between 1980 and 1999 shows that it would have been cheaper more than 85 per cent of the time to opt for a one-year mortgage term and roll it over than to assume a five-year term up front. The average lock-in premium was about 0.019 per cent in 1980s and 0.027 per cent, or $2,200 per year on a $100,000 mortgage since 1980. The higher the lock-in premium, the greater the cost of choosing a five-year term.

If so, why then borrow long?

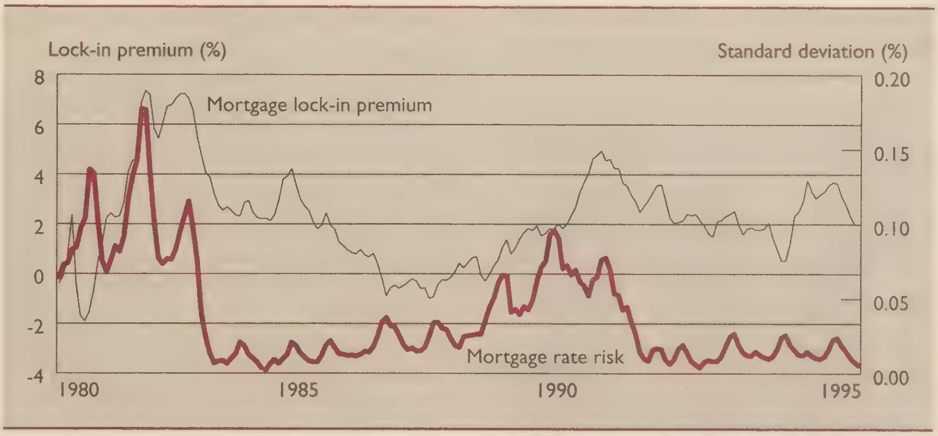
Explaining why so many people borrow long, to some extent, lies in risk management. Mortgage rates vary as bond

It is more costly to choose longer term mortgages



Source: CMHC Since latest data covers up to July 1999, the last five-year term selected corresponds to July 1995 to allow replication and comparison with five one-year terms *CMHC–MAC 1999*

Longer term mortgages as an insurance policy



Source: CMHC Since latest data covers up to July 1999, the last five-year term selected corresponds to July 1995 to allow replication and comparison with five one-year terms *CMHC–MAC 1999*

1 Strategies for mortgage term selection, Mary McDonough, Mortgage Market Trends, Fourth quarter 1995.

yields fluctuate, and they change the risk that mortgage borrowers face over different time periods. There is an additional risk of settling for a one-year term because the one-year rate could go up at each annual rollover point. This risk was measured by standard deviation of the one-year mortgage rate over the five renewal times within the five-year span. The chart clearly establishes the close tie between the mortgage lock-in premium and mortgage rate risk.

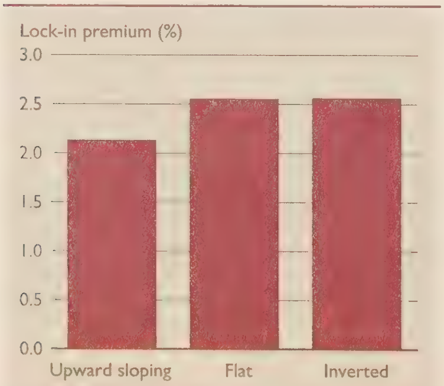
The lock-in premium changes over time

A yield curve showing an array of interest rates along with the corresponding time to maturities is believed to convey important information about the state of the economy and the course of interest rates in the months ahead. An upward sloping curve is normally associated with a period of low inflation and steady economic growth leading to a small risk of significant interest and mortgage rate changes. On the other hand, a flat yield curve can signal higher short-term interest and mortgage rates or lower long-term rates on the horizon. An inverted yield curve may indicate an impending economic slowdown and lower short-term rates.

To assess the relationship between the mortgage lock-in premium and the shape of the yield curve, we defined the mortgage yield curve as upward sloping if the five-year mortgage rate was more than one-half percentage point above the one-year rate. The mortgage yield curve is considered inverted if the one-year rate is higher than the five-year rate. When the difference between five- and one-year rates is between 0-0.5 percentage points, the curve is defined as flat. We did not find evidence of strong correlation between the size of the mortgage lock-in premium and the shape of the mortgage yield curve.

However, when the 1980-99 period was divided into five-year sub-periods, both mortgage risk characteristics and lock-in premiums changed.

Mortgage lock in premium is fairly insensitive to the shape of the yield curve 1980-1999



Source: CMHC *CMHC–MAC 1999*

Mortgage lock in premium and risk by period (%)

	Upward sloping		Flat		Inverted	
	Premium	Risk	Premium	Risk	Premium	Risk
1980-84	3.66	0.05	2.26	0.09	0.00	0.00
1985-89	0.36	0.03	1.02	0.03	1.86	0.07
1990-94	2.31	0.01	4.13	0.06	3.84	0.06
1995-99	2.88	0.02	2.55	0.01	0.00	0.00

Borrowers going longer

There have been some major changes in mortgage rates during this decade, as well as in market structure. The high-water mark for long-term mortgages was 1998, before the numbers started nudging down in early 1999.

NHA: strong five-year base but some volatility

In the NHA side of the mortgage market, which includes first-time buyers and higher ratio loans, mortgagors loo for longer term mortgages in order t protect themselves from mortgage rat hikes. The data confirms this position, a the percentage of mortgages with term of four or five years has remained clos to 50 per cent, or higher, despite impor tant swings in the spread between mort gage rates of one year and of five years. small share of these mortgagors reacte to a change in mortgage rate structure.

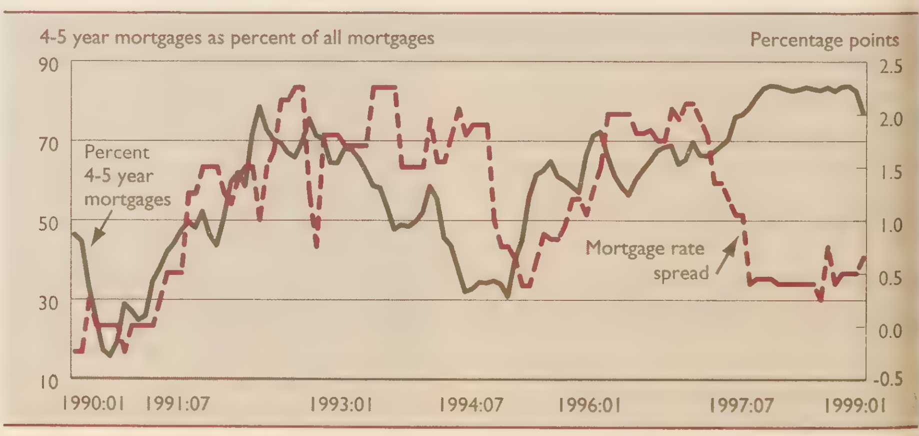
Between 1990 and 1999, the shar of four- or five-year mortgage term selected as percentage of all insure mortgages took nine to twelve months t fully respond to a substantial drop in th mortgage rate spread.

Conventional mortgage holders follow the NHA borrowers

Another data source tells the sam story, but to a different extent. In th Financial Industry Research Monito (FIRM) survey, mortgage holders ar

continued on page 1

4-5 year mortgages as a percentage of all NHA loans and spread between 5-year and 1-year mortagage rates



Source: CMHC, Statistics Canada *CMHC–MAC 1999*

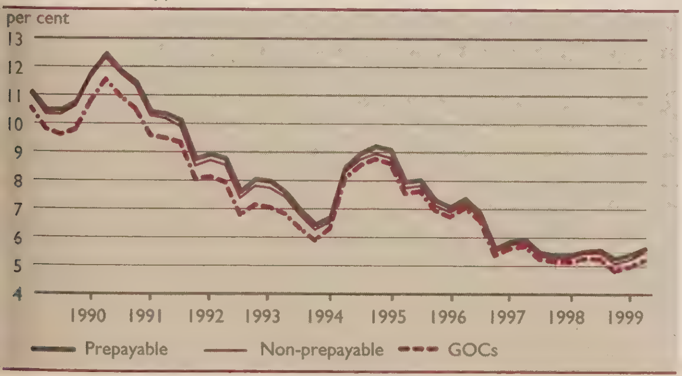
MBS Statistics

NHA MORTGAGE-BACKED SECURITIES

(Average of period except when indicated)

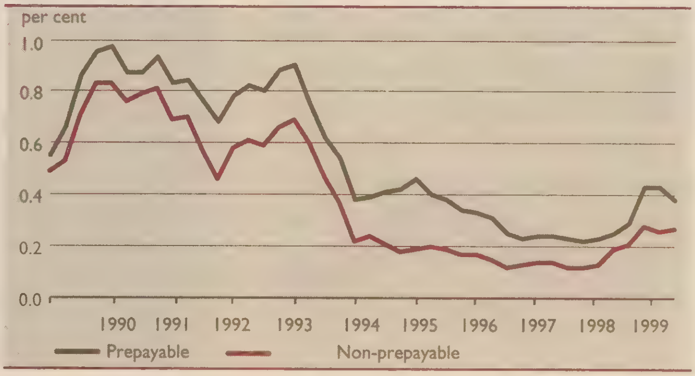
		1997	1998	98Q2	98Q3	98Q4	99Q1	99Q2
Outstanding Amount (End of period)								
TOTAL	$million	14,787.4	19,100.9	18,300.3	18,289.8	19,100.9	21,001.6	22,815.5
	Units	1,251	1,152	1,223	1,188	1,152	1,136	1,115
Residential, single (with PIP)	$million	2,961.7	1,962.2	2,457.5	2,141.9	1,962.2	2,205.2	2,310.4
	Units	581	434	517	481	434	408	372
Residential, single (no PIP)	$million	1,383.6	1,398.2	1,377.5	1,368.4	1,398.2	1,339.2	1,252.5
	Units	191	213	204	208	213	216	215
Residential, single (no PIP with indemnity)	$million	4,370.7	10,029.01	9,042.4	9,116.2	10,029.1	11,607.8	12,882.3
	Units	60	143	125	133	143	154	162
Residential, multiple	$million	1,580.3	1,414.3	1,522.6	1,375.8	1,414.3	1,389.5	1,530.3
	Units	87	97	91	91	97	98	103
Social Housing	$million	4,048.6	3,425.0	3,268.3	3,463.7	3,425.0	3,444.6	3,698.5
	Units	279	190	218	204	190	178	173
Mixed	$million	442.5	872.1	632.1	823.9	872.1	1,015.2	1,141.5
	Units	53	75	68	71	75	82	90
ISSUES (Total of period)								
TOTAL	$million	6,949.0	9,075.6	2,298.2	1,380.4	1,695.3	2,878.7	3,070.9
	Units	238	212	66	42	39	40	46
Residential, single (with PIP)	$million	$532.8	$386.5	$65.8	$60.4	$93.2	$566.2	$438.5
	Units	43	32	7	9	6	7	5
Residential, single (no PIP)	$million	$679.7	$313.3	$58.0	$69.6	$97.5	$35.2	$38.7
	Units	60	27	6	6	6	4	6
Residential, single (no PIP with indemnity) (2)	$million	4576.7	6,664.0	1,759.8	397.9	1,223.2	1,909.3	1,728.2
	Units	60	83	29	8	10	11	8
Residential, multiple	$million	$329.2	$157.6	$53.5	$11.6	$82.5	$31.8	$183.6
	Units	29	18	6	2	9	3	8
Social Housing	$million	$568.3	$1,015.4	$234.1	$577.6	$136.6	$181.8	$544.0
	Units	21	23	8	9	4	6	9
Mixed	$million	$262.2	$538.6	$127.1	$263.3	$62.4	$154.4	$138.0
	Units	25	29	10	8	4	9	10
YIELDS (5-year maturity, %)								
MBS Prepayable (with PIP)		5.66	5.43	5.52	5.56	5.26	5.40	5.61
MBS Prepayable (no PIP)		5.73	5.49	5.58	5.62	5.32	5.46	5.77
MBS Non-prepayable		5.56	5.34	5.46	5.48	5.10	5.23	5.50
MBS Non-Prepayable Multi-Family Pools		5.62	5.39	5.49	5.54	5.16	5.29	5.55
Mortgage rates		7.07	6.93	6.95	7.08	6.83	6.92	7.32
GOCs		5.43	5.13	5.27	5.27	4.83	4.98	5.22
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.23	0.30	0.25	0.29	0.43	0.43	0.38
Prepayable (no PIP)		0.30	0.35	0.31	0.35	0.49	0.48	0.44
Non-prepayable		0.13	0.21	0.19	0.21	0.28	0.26	0.27
MBS Non-Prepayable Multi-Family Pools		0.19	0.26	0.22	0.26	0.33	0.31	0.33
Mortgage rates		1.64	1.80	1.68	1.81	2.01	1.94	2.09

Selected interest rates
(5-year maturity)



Source: Nesbitt Burns, CMHC *CMHC–MAC 1999*

Spreads over GOCs
(5-year maturity)



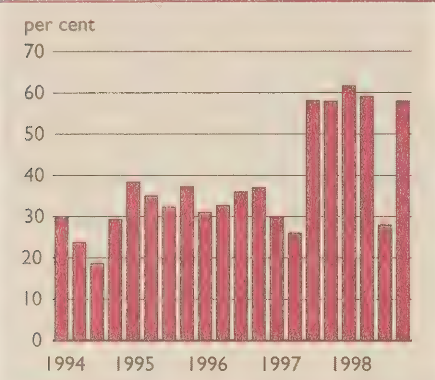
Source: Nesbitt Burns, CMHC *CMHC–MAC 1999*

continued from page 10

asked which term they would choose, if they had to renew their mortgage, under the mortgage rate structure current at the time of the survey.

Though the question is hypothetical, responses indicate a very strong and sustained shift towards longer term mortgages since 1997. Home buyers in the sample generally have more equity and are thus in a better position to bear the risk of a short-term mortgage. This explains why the ratio of three- to five-year mortgages for this sample of mortgage holders stands approximately 20 per cent below that for NHA mortgages.

Percentage of mortgage holders who would pick a 3-5 year term should they have to renew their mortgage



Source: FIRM survey *CMHC–MAC 1999*

Less volatile mortgage term selection

In two previous periods, 1990-91 and 1995-96, there were sharper changes in long-term mortgage term selection than in 1997-99, even though there were comparable five-year over one-year spread shifts. A number of factors have contributed to this stability.

Lower mortgage rates: Although spreads were smaller between short-term and long-term mortgage rates in 1997-99 than earlier in the decade, there is still a preference for long-term mortgages. A lower and more stable environment for mortgage rates than prevailed in the 1980s favours longer term mortgages, as mortgagors do not expect rates to drop much further than their current levels.

Presence of mortgage rate rebates/ discounts: Even under similar spreads between long and short posted mortgage rates, home buyers base their decision on effective mortgage rates, or after-rebate rates. The FIRM survey shows that 28 per cent of mortgagors who benefited from a mortgage rate rebate hold a five-year mortgage; only 20 per cent of those who did not get a rebate opted for five-year terms. Anecdotal evidence also suggests that rebates lead to longer term mortgages, resulting in an attractive deal for some mortgage holders and likely in lower spreads between the five-year mortgage rates and one-year rates tha the posted rates suggest.

Readily available longer term mort gages: Until the 1960s, most residentia mortgages were closed and for terms c 25 to 40 years. In the 1970s and earl 1980s, lenders became increasingly vul nerable because of rising inflation an interest rates, and offered shorter terr mortgages. By the late 1980s, five year had become the norm for long-terr mortgages and the typical short-terr mortgage was for one year. By the mi 1990s, the prevalence of low inflatio rates and stable and low interest an mortgage rates led to a revival of interes in longer term mortgages. An increasin number of lenders now offer mortgage with terms of seven or ten years, an even longer. ■

NHA Amendments

THE NATIONAL HOUSING ACT RECEIVES ROYAL ASSENT

Bill C-66 (1999), a bill to amend the National Housing Act (NHA) and the Canada Mortgage and Housing Corporation (CMHC) Act was passed by Parliament and received Royal Assent on June 17, 1999. It is Chapter 27 of the Statutes of Canada (1999).

The new legislation, which gives CMHC the legislative authority to carry out its programs and business lines, supports the Government of Canada's efforts to make government more efficient and provide better service to Canadians. This legislation enables CMHC to introduce new products and services, as well as new approaches to doing business. For example, CMHC will be able to explore ways to facilitate private housing financing on Indian reserves.

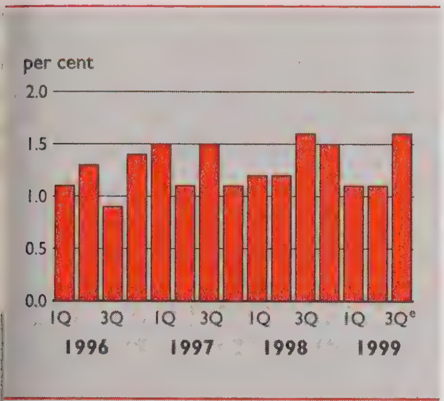
This legislation also deals with CMHC's enhanced role in export promotion and international business development. CMHC is now better positioned to assist the Canadian housing industry to identify and pursue new export opportunities abroad. This is another means by which the Corporation works to ensure a vibrant housing sector in Canada — one that contributes to economic prosperity and jobs for Canadians.

The new NHA (S.C. 1999, c. 27) is available on the web sites of CMHC (www.cmhc-schl.gc.ca) and the Department of Justice (http://canada.justice.gc.ca/). For additional information, please contact Mr. André Girard, Consultant, Media and Association Relations, CMHC (613-748-2375).

MORTGAGE MARKET TRENDS

Market Analysis Centre Fourth Quarter 1999

Residential mortgage credit growth* (from previous quarter)



* nominal e: estimate
Sources: Bank of Canada; CMHC. CMHC–MAC 1999

Market share of residential mortgage credit^e (%)

	3Q98	4Q98	1Q99	2Q99	3Q99^e
Banks	64.4	64.9	65.2	65.5	66.0
Trusts	6.2	6.0	5.9	5.8	5.7
Caisses & Co-op	13.6	13.5	13.5	13.4	13.2
Life	5.3	5.1	4.9	4.8	4.6
Pension Funds	2.1	2.0	2.0	2.0	2.0
Fin. & Loan	8.5	8.6	8.5	8.6	8.6

e: estimate
Total may not add up to 100% due to rounding
Sources: Bank of Canada; CMHC. CMHC–MAC 1999

INSIDE

RESIDENTIAL MORTGAGE CREDIT UP THANKS TO VIBRANT HOUSING MARKETS

by Ali Manouchehri, Senior Economist - Capital Markets

In the third quarter of 1999, housing markets marched ahead despite higher mortgage rates, and mortgage credit grew 1.6 per cent above the level of the previous quarter. Residential mortgage debt reached $411.6 billion by the autumn and accounted for 71 per cent of household debt.

A strengthening labour market and continued economic growth helped the housing market remain vibrant in the third quarter of 1999 despite higher mortgage rates. Broadly based active housing markets in late summer and early fall led to a robust growth of 1.6 per cent in mortgage credit outstanding in the third quarter of the year over the previous quarter. This raised the residential mortgage debt 5.3 per cent higher than the third quarter level of a year earlier. Nevertheless, the pace remained well below the double digit annual growth rate experienced a decade ago.

Rising residential mortgage credit

Source: CMHC, Bank of Canada CMHC–MAC 1999

Continued on page 12

CMHC SCHL
HOME TO CANADIANS
Canada

CMHC-CIMBL STUDY INVESTIGATES MORTGAGE CLIENT ACTIVITIES

by Louis Trottier, Economist

Canada Mortgage and Housing Corporation (CMHC), in partnership with the Canadian Institute of Mortgage Brokers and Lenders (CIMBL), recently conducted a survey called Residential Mortgage Financing Activities among Consumers. *The main objective of the survey was to better understand the decision-making process of residential consumers who were looking to acquire or renew a mortgage.*

More specifically, the study was looking at information-gathering activities, criteria leading to mortgage-related decisions, after-sales service and support requirements, the role of mortgage brokers, and the use of Internet for mortgage information seeking.

About1,300 households who had recently been involved in a mortgage-related deal participated in the telephone survey in October 1999. First-time buyers made up 23 per cent of the sample, while repeat buyers and renewers accounted for 25 and 52 per cent of respondents respectively.

What information do mortgage clients look for? And where?

When it comes to getting mortgage information, clients rely mainly on their regular lender or loan officer and leaflets. Information obtained from their regular loan officer is considered as the most useful for decision purposes. Some respondents also get information from other lenders. Other popular non-lender sources include friends and relatives, newspapers and magazines, and real estate agents. Mortgage brokers and the Internet were not intensively used sources but are viewed as useful.

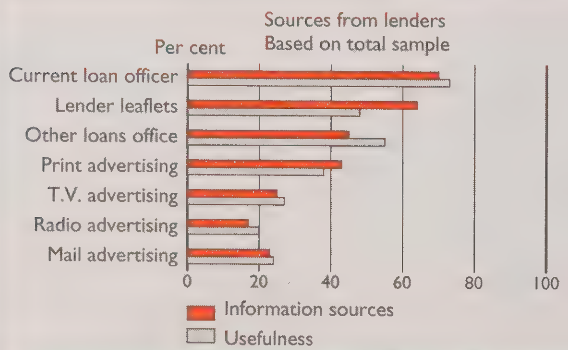
Consumers seeking information focus primarily on mortgage rates. Mortgage features, such as prepayment options and amortization period, become important later in the negotiation process.

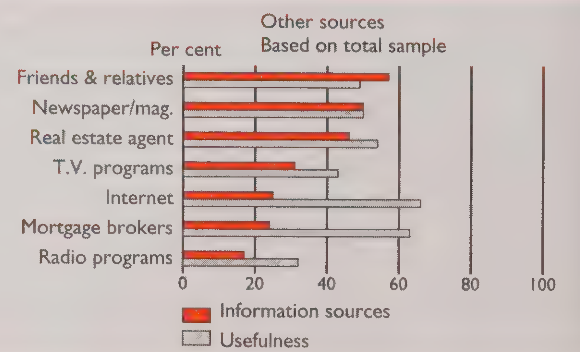
What is considered important when negotiating?

Options other than the mortgage rate become more significant during the negotiation process. Along with rates, terms offered, payment frequency, type of mortgage (open or closed), and prepayment options are considered important by a large majority of clients. Furthermore, 75 per cent of respondents indicated that they pay attention to the total cost of mortgage financing over several years.

Bargaining is also an important component toward the conclusion of a deal. Seventy-four per cent of respondents agreed that obtaining a good deal is a matter of skill, not luck. Almost two thirds of mortgage clients feel that bargaining is the best way to get a deal on a mortgage.

Information sources used in the past when looking for a mortgage
(Responsdents could identify more than one source)





Source: CMHC, CIMBL

Quality service viewed as key item after sale

Quick response and competitive rates were cited as the two main criteria considered when clients choose a lender. Personalized attention also ranked highly important among mortgage customers and clearly influenced consumers decisions. When asked for key factors for staying or changing lenders, recent mortgage clients ranked service and product options first. Mortgage rates, in second position, also appears to be a major factor. Nearly 60 per cent of consumers say they would leave their current lender to get a better mortgage rate.

Mortgage renewers are most loyal to current financial institution

Almost 60 per cent of clients are considered active shoppers. They contact more than one lender and go for the best deal available. About 20 per cent are information seekers. Another 20 percent are uninvoled in the mortgage process. They rely on their current lender, whom they trust to help them make a decision.

With all this information in mind, what do mortgage consumers do when renewing or getting a mortgage? Eighty-eight percent of renewers stay with the same lender, while 60 per cent of repeat and first-time buyers stay with the same financial institution. Overall, 40 per cent of mortgage clients switched lender or financial institution over the course of their most recent mortgage transaction.

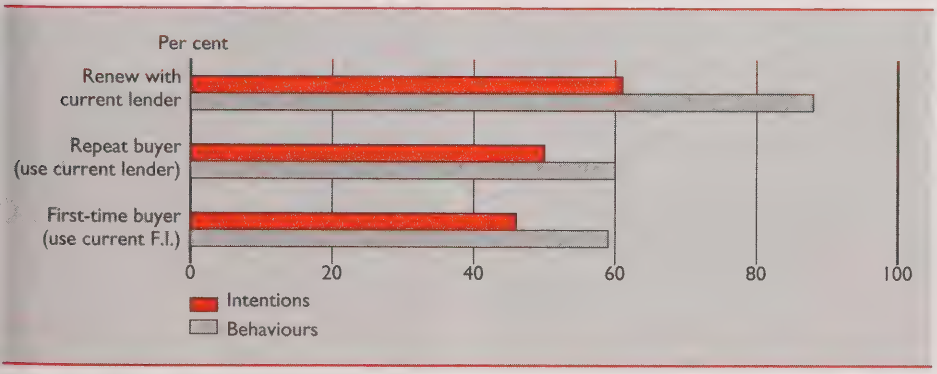
The role of mortgage brokers

A strong majority of mortgage clients are aware of what brokers are and of their role of intermediary in mortgage transactions. Results outline that about 14 per cent of new mortgage initiations are closed by mortgage brokers. First-time buyers make up 50 per cent of brokers clients, likely because of their need to rely on someone to help htem find the best deal in the market.

Internet adds to traditional mortgage channels

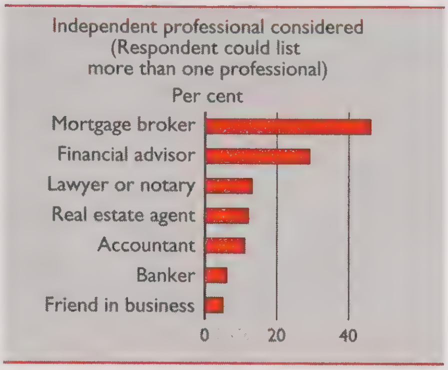
The role of the Internet is likely to become more important in the future, but its usage is limited for the moment. About 25 per cent of mortgage clients surfed web sites, mainly searching for information on mortgage options and characteristics and to calculate payments.

Use of current mortgage lender/Financial Institution Intentions and Behaviours
(Most recent and next mortgage transaction)



Source: CMHC, CIMBL *CMHC – MAC 1999*

Use of independent professional advice when considering a mortgage



Source: CMHC, CIMBL *CMHC – MAC 1999*

Usage of Internet links for mortgage transactions remains limited, due to safety concerns and because many mortgage clients still consider personal contact to essential when they are negotiating a mortgage deal.

Forty percent of all mortgage consumers indicated that they will use the Internet for information-gathering purposes over the next three years, up from the current level of 25 per cent. In spite of an expected increase in the Internet use, both Internet and non-Internet users still consider that establishing a personal relationship is an essential part of the mortgage-negotiation process. ■

This article is a very brief summary of this study. To obtain a copy of the full report, please call CMHC at (613) 748-2010, or fax your order at (613) 748-4097 to Ann Beaulne.

INDICATORS OF MORTGAGE LENDING ACTIVITY

Mortgage credit outstanding[1] (in millions of dollars)

	1996	1997	1998	98Q3	98Q4	99Q1	99Q2	99Q3[e]
Total	350,158	368,506	387,852	390,816	396,508	400,943	405,274	411,567
% change	4.1	5.2	5.2	1.6	1.5	1.1	1.1	1.6
Banks	198,720	221,927	248,143	251,557	257,184	261,231	265,326	271,525
Trust Co.	42,105	33,681	24,442	24,047	23,906	23,735	23,494	23,390
Caisses & Co-op	49,322	51,686	53,144	53,156	53,412	53,992	54,230	54,203
Life Ins. Co.	22,713	22,071	20,797	20,669	20,054	19,762	19,454	18,910
Pension Funds	7,724	7,983	7,983	8,074	8,006	7,966	8,067	8,140
Fin. & Loan	29,573	31,160	33,343	33,313	33,946	34,258	34,704	35,399

(1) Seasonally Adjusted Data (e) Estimate
Sources: Bank of Canada; CMHC. *CMHC – MAC 1999*

NHA and Conventional loans approved[1]

		1997	1998	98Q3	98Q4	99Q1	99Q2
Total	$ millions	75,317	71,861	19,048	16,742	17,001	24,712
	Units	839,107	755,003	194,213	181,428	189,877	254,807
NHA	$ millions	31,155	30,197	7,417	6,556	7,850	10,087
	Units	352,680	333,004	79,873	76,356	91,042	108,395
Conventional	$ millions	44,163	41,664	11,631	10,186	9,860	14,625
	Units	486,427	421,999	114,340	105,072	98,835	146,412
By type of lender							
Banks	$ millions	57,245	55,162	14,573	12,807	13,560	19,579
	Units	602,149	549,170	142,161	132,683	138,733	195,315
Trust Co.	$ millions	7,302	5,954	1,615	1,290	1,172	1,545
	Units	79,727	66,695	18,269	14,100	12,617	16,570
Life Ins. Co.	$ millions	2,718	1,474	347	308	317	273
	Units	48,048	27,103	5,387	5,445	5,570	4,679
Others	$ millions	8,053	9,271	2,512	2,338	2,661	3,314
	Units	109,183	112,035	28,396	29,200	32,957	38,243

(1) Not Seasonally Adjusted
Source: CMHC. *CMHC – MAC 1999*

Mortgage rates (%) (Average of period)

	1996	1997	1998	98Q3	98Q4	99Q1	99Q2	99Q3
1-Year Mortgage Rate	6.19	5.54	6.50	6.68	6.37	6.42	6.45	6.97
3-Year Mortgage Rate	7.33	6.56	6.77	6.93	6.63	6.77	7.07	7.60
5-Year Mortgage Rate	7.92	7.07	6.93	7.08	6.83	6.92	7.32	7.75

Sources: Bank of Canada; CMHC *CMHC–MAC 1999*

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, CMHC, 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506 . Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Berta Zaccardi, General Manager, MBS Centre, CMHC, Toronto Tel.: (416) 218-3416.

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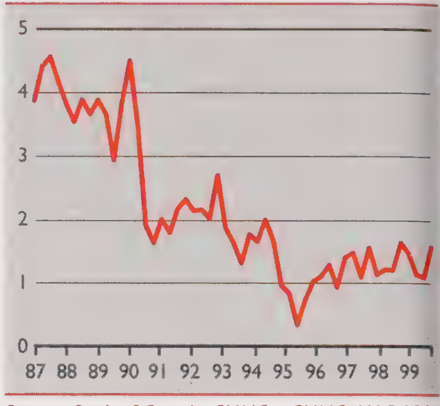
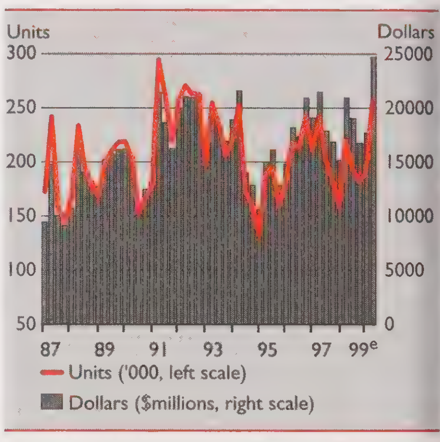
Quarterly residential mortgage credit growth (%)



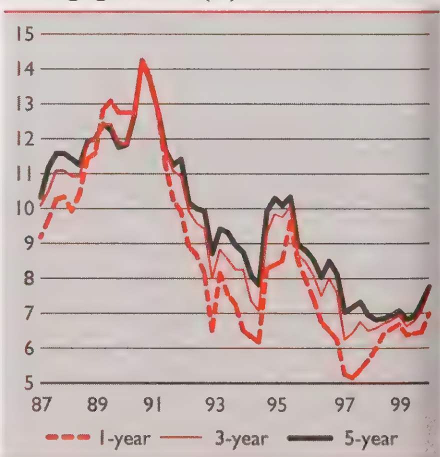
Sources: Bank of Canada; CMHC. *CMHC–MAC 1999*

NHA and Conventional approvals



Sources: Bank of Canada; CMHC. *CMHC–MAC 1999*

Mortgage rates (%)



Sources: Bank of Canada; CMHC. *CMHC–MAC 1999*

NHA Mortgage-backed securities

STRONG VOLUMES CONTINUE THROUGH THIRD QUARTER

by Ian Witherspoon, CMHC MBS Centre

NHA MBS volumes continue their year-long strength, with $2.8 billion issued in the third quarter. This is proving to be a record year for the NHA MBS Program; over $8.7 billion in securities were issued by the end of September. Volumes are on track to end the year 30 per cent ahead of last year's record.

Single-Family NHA MBS Drive 1999 Volumes

Single-family mortgages continue to contribute significantly to the overall volumes achieved in 1999, representing more than 80 per cent of all mortgages pooled in NHA MBS this year. The 970 indemnity pool type has been a particular pool of choice, with $2.1 billion issued in the third quarter. Issues for this pool alone were more than five times higher than for the same quarter a year ago. Although most of the growth occurred in single-unit pools, multiple-unit and mixed pools also did well in the third quarter. For instance, the residential multiple pool (966) has already doubled its 1998 level after only three quarters and will likely surpass its 1997 level.

Some changes in the securitization markets

Also of note in 1999 is the significant increase in the average size of pools being issued. The average pool size issued in the third quarter of 1999 was $69 million, up from $43 million in 1998. The increase in pool size may be attributed largely to the fact that issuers can now use the NHA MBS as collateral with the Bank of Canada and the Canadian Payment System. This new option likely led larger financial institutions to use the NHA MBS channel more intensely. This more intensive use of NHA MBS is also reflected in the volume of special purpose corporations (SPC) issues. After 3 years of explosive growth, the outstanding volume of securities issued by SPC grew at a slower pace this year, including a few months of decline. ■

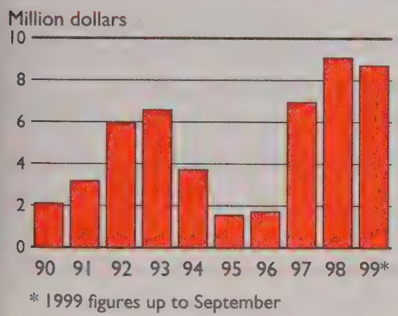
NHA MBS Centre Moves

CMHC is pleased to announce the relocation of the NHA MBS Centre to a new location in downtown Toronto. This change in location will enable the NHA MBS Centre to deliver a greater level of client service and will increase client accessibility.

The new address for the NHA MBS Centre is:

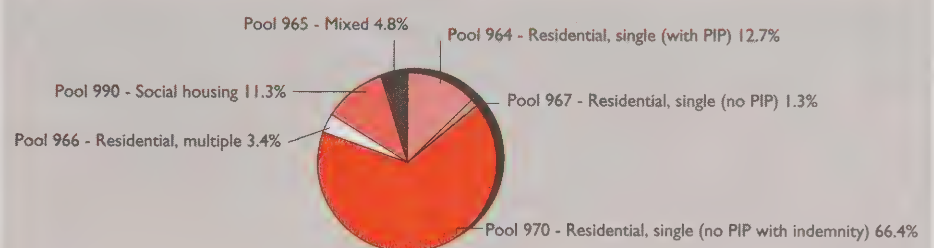
The Exchange Tower
130 King Street West
Suite #1000
Toronto, Ontario M9N 1L5
(416) 250-2700

NHA MBS issues ($billion)



Source: CMHC — CMHC–MAC 1999

NHA MBS issues by pool type
Third quarter 1999



Source: CMHC — CMHC–MAC 1999

LENDERS' OUTLOOK 2000

In November, Mortgage Market Trends interviewed representatives from the mortgage lending industry. Here are their views and comments on a selection of current and upcoming issues in the mortgage market.

Participants to these interviews were Mr. Noël Roy, Advisor, Consumer Marketing Strategy Department, and Ms. Hélčne Bégin, Economist, Confédération des Caisses Populaires et d'Économie Desjardins, Mr. Rob McMeekin, Vice President, Mortgage Investments, Zurich Canada, and Mr. Ajay Mundkur, Vice-President, Mortgages, Scotiabank.

Mortgage Rate and Economic Outlook

MMT: What's in store for the year 2000 in terms of mortgage rates and mortgage lending volume growth? What is your forecast for the 1-year and 5-year closed rates?

Hélène Bégin: The Bank of Canada should proceed with at least two more 25-point increases in its rate next year. Consequently, the 1-year mortgage rate will remain under the 8% mark, a level that is still higher than that prevailing one year ago. The 5-year rate should also rise but to a lesser extent given the low increases expected in the yields on the bond market. In this case, a maximum hike of 25 basis points over the current level is anticipated.

Rob McMeekin: Our base economic forecast for next year is positive despite recent monetary policy tightening in the United States and Canada and concern that underlying inflation may be rising. Therefore, mortgage rates should remain steady or slightly below current levels in the year 2000. As a result, we expect residential mortgage credit outstanding to expand at a pace at least equal to 1999 levels.

Ajay Mundkur: Our overview for the economy is quite positive for next year. Low inflation, solid employment growth, productivity gains and good fiscal management all point to continued growth and a rather stable interest rate environment. Despite some upward pressures, particularly in the U.S., resulting in a flatter yield curve in 2000, we are not expecting rates to go up by more than 25 to 50 basis points over current levels.

Mortgage Clientele Caracteristics and Preferences

MMT: Housing data shows that new home buyers have snapped up larger new homes over the past few years. Has this issue changed your mortgage lending policies? Have you seen a change in the new home mortgage holder habits in terms of downpayment and prepayment?

Noël Roy: It would seem that consumers have used the additional buying power that they obtained from the decrease in interest rates over the past few years. There are also more and more home buyers making small down payments: in fact, we have noted an increase in high-ratio loans in our insured mortgage loan portfolios.

Rob McMeekin: No. We view it as a reflection of changing consumer tastes made possible by affordable pricing and attractive mortgage rates. So, naturally, there is a tendency on the part of some buyers to maximize their purchasing power. It is also a reflection of a strong economy and consumer confidence. I would say we have noticed a slightly higher frequency of pre-payment, but this is more a function of increased activity in the housing market than anything else.

Ajay Mundkur: In our mortgage lending policy, we continue to strive to meet the multitude of varying needs of mortgage customers across Canada. It's interesting that the renaissance of growth in the economy has almost returned consumers to more traditional, more established residential real estate requirements. We are again seeing very desirable suburban housing development that, although more contemporary, is not markedly different from what we saw in earlier generations.

MMT: Is your institution looking to develop new mortgage products for specific clientele niches such as younger households, older ones?

Rob McMeekin: Most lenders are looking at various product offerings designed to satisfy the needs of specific or evolving demographic groups. To be successful, these products must offer unique, value added characteristics. This may include creating both internal and external alliances and partnerships.

Noël Roy: Desjardins surveys the market and polls its members to find out their needs and attempts to offer products that meet their expectations. One of our concerns is the aging of the population, and products that are more specific to this client group are currently being studied. No decision has yet been made.

continued on page 12

NHA MORTGAGE-BACKED SECURITIES
ULY TO SEPTEMBER 1999

OOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST (%)	AMORTIZATION (YRS)
ONTH OF ISSUE: July 1999						
HA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
6-413-372	PAFCO INSURANCE COMPANY	12,307,432.08	5.750	2004-07-01	6.96	23.40
6-413-380	PAFCO INSURANCE COMPANY	2,955,118.92	6.000	2009-07-01	7.41	21.63
6-413-406	M.R.S. TRUST COMPANY	12,973,680.17	5.400	2004-07-01	6.20	23.02
6-413-414	VANCOUVER CITY SAVINGS CU	54,193,260.66	5.100	2004-07-01	6.15	20.55
6-413-422	VANCOUVER CITY SAVINGS CU	10,977,257.31	5.100	2004-06-01	6.14	12.05
HA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
6-601-281	PEOPLES TRUST COMPANY	30,351,560.89	5.800	2009-07-01	6.51	27.22
HA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
6-702-576	HSBC BANK CANADA	11,990,925.42	5.250	2004-06-01	6.15	21.57
HA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
7-001-689	CANADA TRUSTCO MORTGAGE CO.	73,752,715.62	5.000	2003-07-01	6.02	20.14
7-001-697	CANADA TRUSTCO MORTGAGE CO.	254,920,835.65	5.000	2004-01-01	6.05	20.36
7-001-705	CANADA TRUSTCO MORTGAGE CO.	173,108,726.82	5.000	2004-07-01	5.97	20.82
7-001-713	CANADA TRUSTCO MORTGAGE CO.	325,557,028.67	5.000	2004-07-01	6.27	21.28
7-001-721	THE EQUITABLE TRUST COMPANY	11,649,031.12	5.450	2004-07-01	6.45	22.92
ONTH OF ISSUE: August 1999						
HA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
6-413-398	PAFCO INSURANCE COMPANY	6,294,829.83	6.000	2004-08-01	7.27	22.97
HA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
6-501-184	M.R.S. TRUST COMPANY	37,615,137.50	5.800	2009-08-01	6.41	25.00
6-501-192	M.R.S. TRUST COMPANY	7,998,205.00	5.650	2004-08-01	6.17	21.11
6-501-200	THE EQUITABLE TRUST COMPANY	10,923,906.53	6.000	2009-08-01	6.66	24.98
6-501-226	THE EQUITABLE TRUST COMPANY	7,867,917.50	5.900	2004-08-01	6.56	25.00
6-501-234	THE EQUITABLE TRUST COMPANY	11,529,817.00	6.200	2019-08-01	6.79	22.73
HA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
6-601-299	TORONTO-DOMINION BANK	22,061,825.00	5.750	2009-08-01	6.41	25.00
6-601-307	PEOPLES TRUST COMPANY	27,054,510.40	5.125	2004-08-01	6.44	23.63
HA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
6-702-584	HSBC BANK CANADA	4,758,883.68	5.250	2002-08-01	6.22	22.47
6-702-592	HSBC BANK CANADA	13,376,375.39	5.250	2004-07-01	6.29	22.44
HA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
7-001-739	NATIONAL BANK OF CANADA	237,428,971.49	5.000	2004-06-01	6.33	21.70
7-001-747	NATIONAL BANK OF CANADA	87,481,018.07	5.000	2004-02-01	6.54	11.57
OCIAL HOUSING POOLS						
9-008-062	TORONTO-DOMINION BANK	7,094,736.00	5.375	2004-08-01	6.03	34.07
9-008-070	TORONTO-DOMINION BANK	103,346,666.94	5.500	2009-08-01	6.01	29.23
9-008-096	BANK OF NOVA SCOTIA	8,867,104.63	5.450	2004-08-01	5.95	24.02

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST (%)	AMORTIZATION (YRS)
MONTH OF ISSUE: September 1999						
NHA-INSURED MARKET RESIDENTIAL POOLS (SINGLE UNITS)						
96-413-430	PAFCO INSURANCE COMPANY	5,355,067.08	5.500	2004-09-01	7.49	23.71
NHA-INSURED MARKET RESIDENTIAL POOLS (MIXED)						
96-501-218	CIBC MTGS INC./FIRSTLINE MTGS.	38,827,927.58	5.250	2009-09-01	6.24	27.83
96-501-242	CIBC MTGS INC./FIRSTLINE MTGS.	12,046,231.33	5.250	2004-08-01	6.11	21.15
NHA-INSURED MARKET RESIDENTIAL POOLS (MULTIPLE UNITS)						
96-601-315	PAFCO INSURANCE COMPANY	4,314,642.01	5.350	2009-09-01	6.23	23.30
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP*)						
96-702-600	HSBC BANK CANADA	9,765,799.26	5.000	2004-08-01	6.46	21.79
NHA-INSURED MARKET RESIDENTIAL POOLS (NO PIP* WITH INDEMNITY)						
97-001-788	CANADA TRUSTCO MORTGAGE CO.	94,751,565.93	5.000	2002-09-01	6.60	21.07
97-001-796	CANADA TRUSTCO MORTGAGE CO.	132,587,227.74	5.000	2004-08-01	6.31	12.37
97-001-804	CANADA TRUSTCO MORTGAGE CO.	496,095,770.70	5.000	2004-09-01	6.43	21.39
97-001-812	CANADA TRUSTCO MORTGAGE CO.	89,086,224.30	5.000	2003-12-01	6.12	11.57
97-001-820	CANADA TRUSTCO MORTGAGE CO.	87,534,274.41	5.000	2004-06-01	6.03	11.70
97-001-838	CANADA TRUSTCO MORTGAGE CO.	84,567,619.47	5.000	2004-01-01	6.04	19.06
SOCIAL HOUSING POOLS						
99-008-088	TORONTO-DOMINION BANK	129,726,903.17	5.625	2004-09-01	6.33	27.67
99-008-104	BANK OF NOVA SCOTIA	6,708,933.00	5.650	2004-09-01	6.32	34.28

*PIP stands for Penalty Interest Payment

Definition of MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

UNLOCKING HOME EQUITY CAN OFFER ATTRACTIVE OPPORTUNITIES FOR HOME-RICH SENIORS AND LENDERS

y Ali Manouchehri, Senior conomist - Capital Markets

learly 1.3 million senior anadian homeowners can benfit from reverse mortgages by nlocking over $17 billion of heir home equity into immedite income. 700,000 more eniors are expected to join the anks by 2006 and expand the harket by at least $11 billion.

Vhat is a reverse hortgage?

reverse mortgage is a financial instruient that provides senior citizens with a ieans for converting some of their home quity into immediate cash without sellg their homes. It could unlock as much s 40 per cent of the current home value nd provide the homeowner with a taxee lump sum amount or regular peridic payments to suit the homeowner's equirements. The payments are regisered against the property as a mortgage ut do not require repayment during omeowner's residence in the home. The iortgage principal and interest are paid ff normally when the house ceases to be ie homeowner's primary residence. The iterest rate charged on the mortgage is sually tied to the yield on one-year treaury bills, and the interest rate is subject change annually.

Since they were introduced in Canada in the mid 1980s, reverse mortgages have grown to surpass $150 million in volume.

Who qualifies for a reverse mortgage?

There are a number of criteria to qualify for a reverse mortgage, but the criteria could change over time and from one lender to another. Currently, to qualify for a reverse mortgage, the home owner must be at least 62 years old and should have clear title to the home. The amount advanced under a reverse mortgage contract ranges between 10 and 40 per cent of the appraised home value after adjustment for any outstanding mortgage, depending on the homeowner's age and marital status. The older the homeowner, the higher is the percentage advanced.

Reverse mortgages come in many forms

Common types of reverse mortgages available in Canada include annuity, line of credit, and fixed-term mortgages. Each is designed to respond to certain aspects of the financial need of borrowers. A reverse annuity mortgage allows the homeowner to borrow a lump sum amount to purchase an annuity that provides a regular periodic income, normally for the rest of her or his life. A line of credit reverse mortgage tends to reduce the interest costs for the borrower since it allows the borrower to take out, up to a maximum annual amount, as little or as much money as is needed at any given time. A fixed-term reverse mortgage requires repayment of the borrowed funds and interest charges after a specific period of time, during which the homeowner receives an agreed-upon amount. Some reverse mortgages become due when the borrower moves out of the mortgaged house while others continue until the borrower and the spouse pass away.

Reverse mortgages can benefit both borrowers and lenders

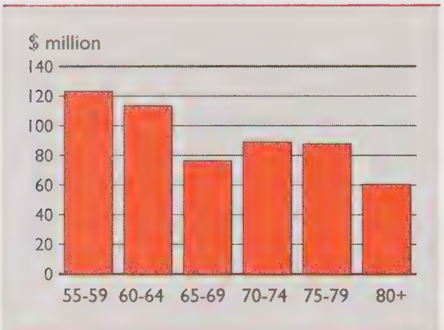
Reverse mortgages offer senior citizens an opportunity to continue to stay in their homes for as long as they are alive. This helps individuals to remain in familiar surroundings enjoying community support. The tax-free additional income it provides could play a critical role in pulling a low-income homeowner out of poverty. It allows the homeowner to retain title to the house and benefit from any house price appreciation. A reverse mortgage can be paid off at any time, albeit with a penalty, and income received under the program is taxable. Reverse mortgages, however, can be costly for homeowners since interest on borrowed funds is currently about 4-5 percentage point above the yield on one-year treasury bills.

Financial institutions offering reverse mortgages have an opportunity to lend out money at low risk. The interest rate on advanced funds is usually tied to yields on one-year treasury bills or other senior government bonds and normally exceeds long-term mortgage rates. Since loan amounts are currently limited to 40 per cent of the home value, there is little likelihood that the lender will not be able to recover the loan amount and the compounded interest when the house is sold.

Over a quarter of a million seniors receiving income support could benefit from home equity conversion

Reverse mortgages can assist in reducing income support needed by senior citizens and can make it feasible for them to remain in the family home and to receive health care at home rather than in an institution. Some 256,000 seniors over 65 currently have a before-tax annual income of under $14,000, but own a home. Based on the total value of these homes, over $3.1 billion, seniors could cash in over $300 million of home equity to improve their living standards. Another 95,000 senior households could similarly enhance their incomes over the next six years.

Reverse mortgage market potential, lower bound
for households receiving income support, by age

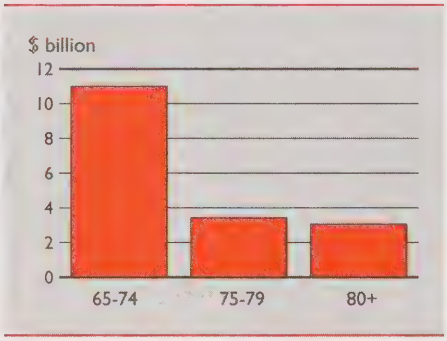


Source: CMHC, Statistics Canada (FAMEX 1996) *CMHC–MAC 1999*

How large is the potential market for reverse mortgages?

Homes account for about 20 per cent of our assets in Canada. An ageing population and an expanding residential asset base set the tune for the reverse mortgage market. According to the latest census data, there were about 1.3 million households in Canada in which senior citizens owned their homes and had no residential mortgage debt. These homes were valued at $175 billion, leading to a potential market of between $17 billion and $70 billion in reverse mortgages, depending on the amount of funds advanced. As more household heads join the ranks of mortgage-free homeowner seniors over the next seven years, the reverse mortgage market could expand further by between $11 billion and $43 billion, even with the assumption that property values do not appreciate between 1996 and 2006. Many of those between 55 and 64 years of age will also be paying off their mortgages by 2006, increasing the potential size of the reverse mortgage market.

Reverse mortgage market potential, lower bound
All senior citizen households, by age



Source: CMHC, Statistics Canada (PUMF 1996) *CMHC–MAC 1999*

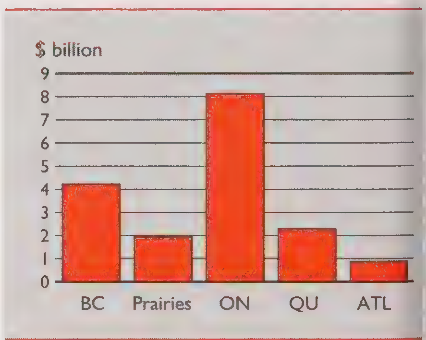
Reverse mortgages growing slowly

Despite a potential market of up to $7 billion, reverse mortgages have grow slowly in Canada over the past doze years to reach $150 million. The primai factors inhibiting faster growth incluc limited information about reverse mor gages, selective participation in the pr gram by lenders, custom-made features the program which make it more expe sive to run, high-interest costs associate with loans, and relatively small loan-t house-value ratio.

Ontario and British Columbia senior home-owners could be the largest beneficiaries

Home-rich, cash-restrained seniors a the prime candidates to benefit fro reverse mortgages. Over half a millic mortgage-free senior homeowners Ontario could unlock as much as $32 b lion from their home equity via rever mortgages. Some 200,000 more seni homeowners could cash in up to $17 b lion from their home equity in Britis Columbia. ■

Reverse mortgage market potential, lower bound
All senior citizen households, by province



Source: CMHC, Statistics Canada (PUMF 1996) *CMHC–MAC 199*

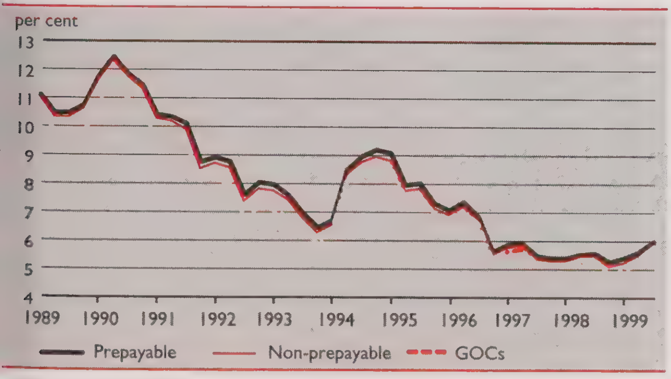
1BS Statistics

NHA MORTGAGE-BACKED SECURITIES

(Average of period except when indicated)

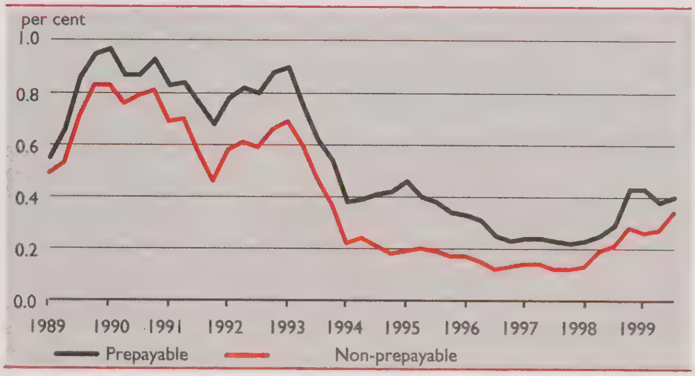
		1997	1998	98Q3	98Q4	99Q1	99Q2	99Q3
)utstanding Amount (End of period)								
OTAL	$million	14,787	19,101	18,290	19,101	21,002	22,816	24,598
	Units	1,251	1,152	1,188	1,152	1,136	1,115	1,098
esidential, single (with PIP)	$million	2,962	1,962	2,142	1,962	2,205	2,310	2,278
	Units	581	434	481	434	408	372	353
esidential, single (no PIP)	$million	1,384	1,398	1,368	1,398	1,339	1,252	1,199
	Units	191	213	208	213	216	215	207
esidential, single (no PIP with indemnity) (2)	$million	4,371	10,029	9,116	10,029	11,608	12,882	14,531
	Units	60	143	133	143	154	162	175
esidential, multiple	$million	1,580	1,414	1,376	1,414	1,390	1,530	1,552
	Units	87	97	91	97	98	103	106
ocial Housing	$million	4,049	3,425	3,464	3,425	3,445	3,699	3,777
	Units	279	190	204	190	178	173	161
lixed	$million	443	872	824	872	1,015	1,142	1,260
	Units	53	75	71	75	82	90	96
SSUES (Total of period)								
OTAL	$million	6,949	9,076	1,380	1,695	2,879	3,071	2,760
	Units	238	212	42	39	40	46	40
esidential, single (with PIP)	$million	533	386	60	93	566	438	105
	Units	43	32	9	6	7	5	7
esidential, single (no PIP)	$million	680	313	70	97	35	39	40
	Units	60	27	6	6	4	6	4
esidential, single (no PIP with indemnity)	$million	4,577	6,664	398	1,223	1,909	1,728	2,149
	Units	60	83	8	10	11	8	13
esidential, multiple	$million	329	158	12	83	32	184	84
	Units	29	18	2	9	3	8	4
ocial Housing	$million	568	1,015	578	137	182	544	256
	Units	21	23	9	4	6	9	5
lixed	$million	262	539	263	62	154	138	127
	Units	25	29	8	4	9	10	7
IELDS (5-year maturity, %)								
BS Prepayable (with PIP)		5.66	5.43	5.56	5.26	5.40	5.61	5.97
BS Prepayable (no PIP)		5.73	5.49	5.62	5.32	5.46	5.66	6.03
BS Non-prepayable		5.56	5.34	5.48	5.10	5.23	5.50	5.91
BS MMUF		5.62	5.39	5.54	5.16	5.29	5.55	5.94
ortgage rates		7.07	6.93	7.08	6.83	6.92	7.32	7.75
OCs		5.43	5.13	5.27	4.83	4.98	5.22	5.57
PREADS OVER GOC (5-year maturity,%)								
repayable (with PIP)		0.23	0.30	0.29	0.43	0.43	0.38	0.40
repayable (no PIP)		0.30	0.35	0.35	0.49	0.48	0.44	0.46
on-prepayable		0.13	0.21	0.21	0.28	0.26	0.27	0.34
MUF		0.19	0.26	0.26	0.33	0.31	0.33	0.37
ortgage rates		1.64	1.80	1.81	2.01	1.94	2.09	2.18

elected interest rates
-year maturity)



urce: Nesbitt Burns, CMHC — *CMHC–MAC 1999*

Spreads over GOCs
(5-year maturity)



Source: Nesbitt Burns, CMHC — *CMHC–MAC 1999*

continued from page 6

Ajay Mundkur: We recently introduced a new mortgage product, the Scotia Total Equity Plan, or STEP. It is a multi-product retail credit facility that includes a selection of products, not only one or more mortgages, but also other financing arrangements under a single credit agreement. It provides flexibility now and in the future, and is designed to meet the needs of customers throughout the life cycle of borrowing without additional expenses as their requirements change. Customer response has been excellent.

Mortgage Market Industry

MMT: Many partnerships have been reached over the past few years. Do you feel there is still room for increased use of such means of reaching clients? Do you feel a peak has already been reached?

Noël Roy: No. Desjardins has associated itself with various builders and real estate agents in the last three years, and the experiences have turned out to be highly satisfactory. We therefore intend to pursue these initiatives over the next few years.

Rob McMeekin: I don't feel the peak has been reached. The mortgage industry is a fiercely competitive market. If lenders are to survive, partnerships will play a role in developing, expanding and exploiting market niches. What will change is the scope of product offerings made available through partnerships that are designed to connect with targeted demographic groups and emerging market segments. I think that partnerships are generally under-exploited and that they will become increasingly important.

Ajay Mundkur: No, we recognize that there is good opportunity in establishing partnerships and then bringing customized products and services to that channel. Providing products via partnerships benefits not only the customer but also the Bank, which can then have better productivity and better participation rates in those channels.

Mortgage Securitization

MMT: How do you see mortgage securitization evolving in the year 2000 and beyond?

Noël Roy: I think that, in general, the sale of claims will continue to grow over the next few years, particularly in Canada, but will not be limited to mortgages. Since mortgages constitute top-quality material, their securitization should certainly not slow down in the years to come.

Rob McMeekin: Mortgage securitization will continue to grow in 2000 and beyond. Market conditions should remain positive for NHA-MBS issuance next year. The introduction of new pool types, simplified administration and a proactive re ulatory environment have all benefitte NHA-MBS performance. In 2000 an beyond, I think there will be a steady evo lution of this market, including the deve opment of forms of mortgage conduits.

Ajay Mundkur: I think you are going t see a re-emergence of securitization. Fo the issuer, the principal reason is the shi away from fixed interest rate deposits t mutual funds and other equity-type proc ucts. For the investor, I think there will b a good niche opportunity for value-adde returns over other fixed income instru ments. So there is both investor benef and issuer benefit, and I can see securit zation becoming a popular investmen strategy once again.

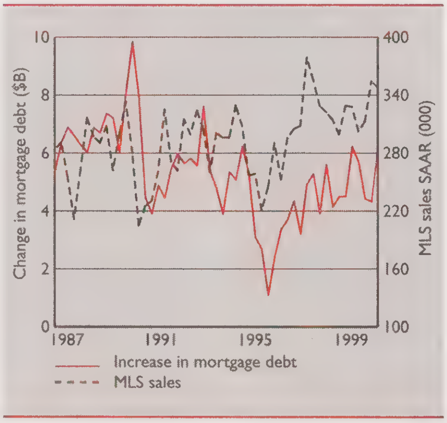
MMT: Thanks for sharing your view with us. ■

continued from page 1

Mortgage lending up too, thanks to resilient home sales and construction

Active residential real estate markets in the third quarter of 1999 were responsible for raising the value of approved loans for both MLS[1] sales and housing star nearly 11 per cent above levels in th same period a year ago.

Home sales lift mortgage debt



Source: CMHC, Bank of Canada, CREA

CMHC–MAC 1999

Chartered banks continu to lead other lenders

Recent trends in market share by institu tion type continued, with chartered bank accounting for approximately 79.2 pe cent of mortgage initiation and 66 pe cent of mortgage loans outstanding. ■

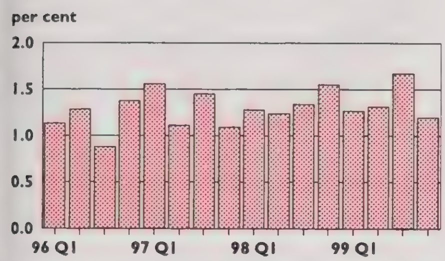
1 Multiple Listing Service (MLS) is a registere certification marked owned by the Canadia Real Estate Association

CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

First Quarter, 2000

Residential mortgage credit growth*



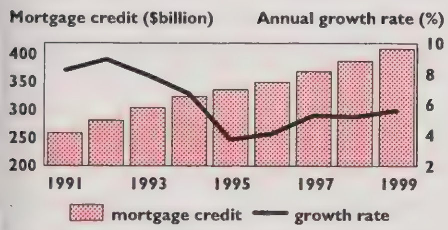
* quarter-over-quarter estimates
Sources: CMHC, Bank of Canada CMHC-MAC 2000

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%)

	4Q98	1Q99	2Q99	3Q99	4Q99e
Banks	64.8	65.2	65.5	65.7	65.9
Trusts	6.0	5.9	5.8	5.7	5.5
Caisses & Co-op	13.5	13.5	13.4	13.4	13.4
Life Ins. Co.	5.1	4.9	4.8	4.6	4.5
Pension Funds	2.0	2.0	2.0	1.9	1.9
Fin. & Loan	8.5	8.5	8.6	8.7	8.8

e: estimate
Sources: Bank of Canada, CMHC CMHC-MAC 2000

Residential mortgage credit rising slowly



Sources: CMHC, Bank of Canada CMHC-MAC 2000

In this Issue:

MORTGAGE LENDING

STRONG HOUSING MARKETS BOOST RESIDENTIAL MORTGAGE CREDIT

by Ali Manouchehri, Senior Economist - Capital Markets

Residential mortgage credit grew by 1.2 per cent in the final quarter of 1999 to reach $418 billion as housing markets marched ahead despite higher mortgage rates. Residential mortgage debt expanded by 5.6 per cent in 1999 thanks to stronger sales in both new and existing home markets.

A combination of robust economic growth and improving labour markets in 1999 boosted consumer confidence and laid the foundation for a rebound in housing markets and healthy growth in the mortgage market. Housing starts rose by 9.1 per cent while home sales through MLS[1] were up by 6.7 per cent last year. The strength in housing markets led to an increase of 1.2 per cent in mortgage credit outstanding in the closing quarter of 1999 over the previous quarter. This raised the residential mortgage debt by 5.6 per cent in 1999 in line with the historical experience of the 1990s.

Primary and secondary mortgage markets on a roll

Active residential real estate markets led to an increase of 1.8 per cent in credit outstanding in the primary mortgage market in the fourth quarter of 1999 compared to the same period in 1998. As the Canadian housing finance system has advanced, secondary mortgage markets have assumed an increasing role in funding mortgages. CMHC's introduction of National Housing Act Mortgage-Backed Securities (NHA MBS) in 1987 set the stage for the development of secondary mortgage markets in the country. The pace of expansion in the secondary market was substantially faster than in the primary market in 1999, where mortgage credit outstanding grew by 44.4 per cent between the final quarter of 1999 and the fourth quarter of 1998. By the last quarter, NHA MBS and Special Purpose Corporations represented 6.5 and 4.6

Continued on page 7

CMHC SCHL

HOME TO CANADIANS

Canada

HOME BUYERS' PLAN ASSISTED MORE THAN 105,000 INDIVIDUALS IN 1999

by Ali Manouchehri, Senior Economist - Capital Markets

The federal government's Home Buyers' Plan helped over 105,000 individuals to realize their homeownership dream last year by enabling them to withdraw more than one billion dollars in RRSP funds to purchase homes. Since its inception in 1992, some 880,000 individuals have participated in the program channeling $8.6 billion to the housing market.

What is Home Buyers' Plan (HBP)?

The Home Buyers' Plan (HBP) was introduced by the federal government in 1992 to help individuals to purchase homes. It allows Canadians to withdraw up to $20,000 tax-free from their RRSPs for this purpose.The amounts withdrawn remain tax-exempt if they are repaid within 15 years.The extent and utilization of HBP was limited to first-time home buyers when it was modified in March 1994.

Recent enhancements to the program that became effective in 1999 allow those who have owned a home previously to participate in the program again, provided that they have not owned a house in the previous five years and if they have fully repaid all funds previously withdrawn under the program. It also allows for wider accessibility of the program for disabled individuals or those caring for them.

HBP assists homebuyers

The nearly 105,000 individuals who took advantage of HBP to become homeowners in 1999 withdrew more than one billion dollars from their RRSPs under the program.

Since its inception in 1992, HBP has assisted some 880,000 individuals to become homeowners, channeling about $8.6 billion into the housing market across the country.

The average withdrawal under HBP was about $9,984 in 1999, in line with amounts withdrawn in the previous years.

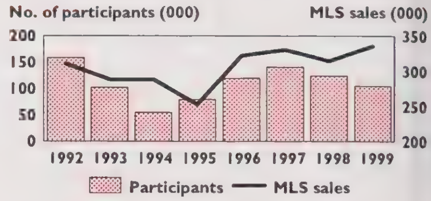
HBP contributes to the residential real estate market

The HBP continued to play a critical role in the residential real estate market, particularly for first-time buyers.The average withdrawal under HBP amounted to 6.3 per cent of the price of an average house across the country in 1999, ranging from a low of 4.7 per cent in British Columbia to a high of 10.6 per cent in Quebec.

The ratio of HBP participants to MLS sales remained close to 30 per cent.This suggests that up to one out of three home buyers used RRSP funds to make the purchase. Withdrawals under HBP accounted for 2 per cent of the value of homes sold through MLS last year. In Quebec,

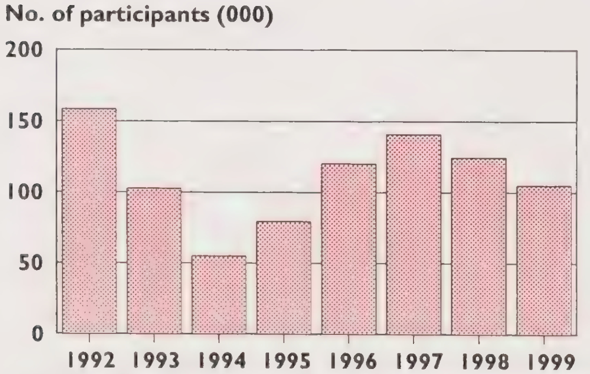
Continued on page 7

Home Buyers' Plan and MLS sales



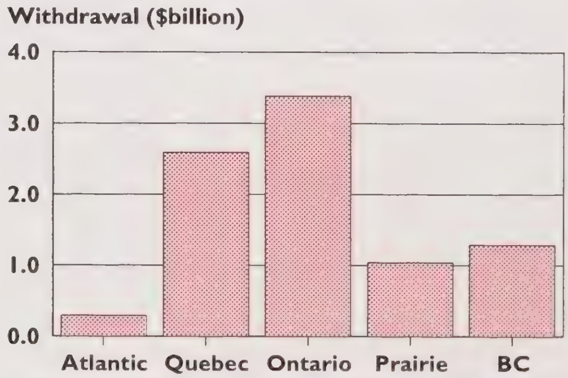
Sources: Revenue Canada, 1999 data are preliminary
CMHC-MAC 2000

Home Buyers' Plan has helped over 880,000 individuals to buy homes



Source: Revenue Canada, 1999 data are preliminary

Since 1992 Home Buyers' Plan has channeled $8.6 billion to housing markets



Source: Revenue Canada, 1999 data are preliminary

30-YEAR FIXED-RATE MORTGAGES: POPULAR IN U.S., DESIRABLE IN CANADA

by Jean Sabuhoro, Senior Economist and Ali Manouchehri, Senior Economist - Capital Markets

Unique mortgage lending conventions, mortgage market structure, and economic fundamentals to a large extent explain why Canadians choose mortgages with shorter terms than U.S. residents, who favour 30-year fixed-rate mortgages. Further integration of the Canadian and U.S. financial markets is likely to narrow the difference in mortgage term selection between the two countries in the future.

It is now possible, in both the United States and in Canada, to lock in interest rates and monthly mortgage payments for the life of a mortgage loan. A longer term gives the borrower the peace of mind that comes from knowing that the rate and payment will not change over the life of the loan. A fixed-rate loan protects the mortgagor against rising interest rates. The cost of this protection is in mortgage rates that are normally higher for longer term loans than for short-term ones. The long-term fixed rate mortgage loans can be attractive to those with a fixed monthly income and those who expect to live in their home for a long time.

History of long-term mortgages in Canada

Until the 1960s, most residential mortgages in Canada were closed and for terms of between 25 and 40 years. In the 1970s and early 1980s, when lenders became more vulnerable to rising inflation, they began to offer short-term mortgages. By the late 1980s, five-year terms became the norm and today the majority of first-time mortgagors still choose this term. However, by the late 1980s, major changes in financial and economic conditions paved the way for the re-introduction of longer term mortgages.

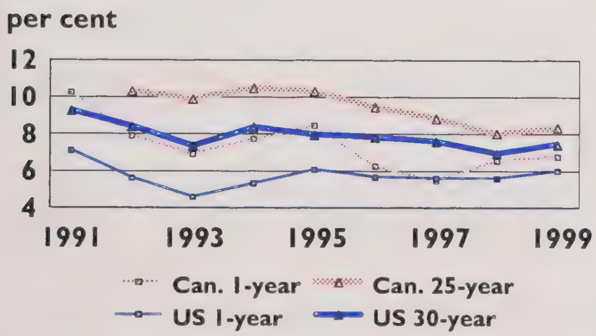
Lower lock-in mortgage premium in Canada than in the U.S.

In general, the nominal interest rate on a debt security such as a mortgage consists of a risk-free rate (for example, the yield on government bonds) plus premiums reflecting expected inflation, risk of default and the liquidity of the security. Some borrowers dislike short-term debt because it exposes them to the risk of having to repay or refinance it under adverse conditions. Accordingly, other things being equal, borrowers are willing to pay a high rate for longer term funds than for short-term funds.

By paying a higher rate for longer term mortgages, a borrower can lock in the mortgage rate and payments over the term of the mortgage and, in effect, obtain insurance against mortgage rate hikes. This lock-in premium, measured by the additional interest cost of borrowing funds over 30 years instead of for six months, have generally been lower in Canada than in the United States, though the opposite has occasionally been the case. The average and median premiums between 1982 and 1999, the period for which data is available, were 1.18 and 1.25 percentage points respectively in Canada versus 1.74 and 1.59 percentage points in the United States.

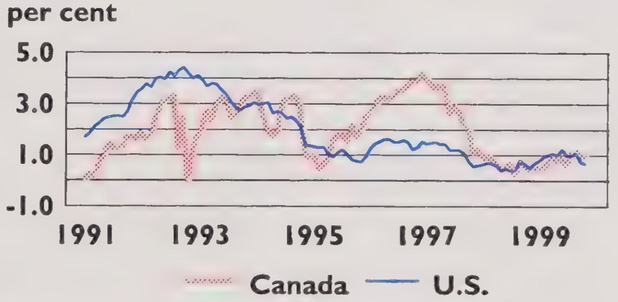
Continued on page 6

Mortgage rates in Canada and U.S.



Sources: CMHC, Bank of Canada, Regional Financial Associates (RFA) CMHC-MAC 2000

Additional costs of borrowing for 30 years over 6 months



Sources: CMHC, Bank of Canada, RFA CMHC-MAC 2000

INDICATORS OF MORTGAGE LENDING ACTIVITY

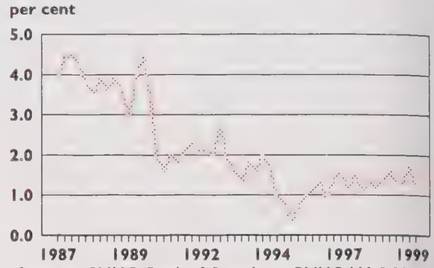
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1997	1998	1999	4Q98	1Q99	2Q99	3Q99	4Q99e
TOTAL	368,651	387,770	409,655	396,053	401,066	406,343	413,130	418,082
% change	5.3	5.2	5.6	1.6	1.3	1.3	1.7	1.2
Banks	222,057	248,026	268,646	256,840	261,399	266,018	271,491	275,676
Trusts	33,679	24,442	23,481	23,908	23,731	23,693	23,617	22,881
Caisses & Co-op	51,687	53,146	54,942	53,436	53,975	54,455	55,236	56,104
Life Ins. Co.	22,071	20,797	19,279	20,080	19,761	19,370	19,083	18,903
Pension Funds	7,997	8,015	7,880	8,006	7,966	7,948	7,857	7,748
Fin. & Loan	31,161	33,343	35,427	33,783	34,234	34,859	35,845	36,770

*Seasonally adjusted data — e:estimate

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

Quarterly residential mortgage credit growth



Sources: CMHC, Bank of Canada — CMHC-MAC 2000

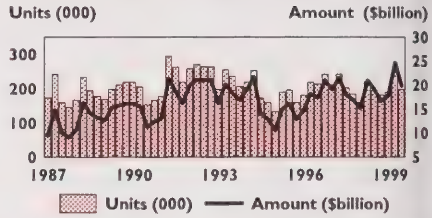
NHA AND CONVENTIONAL LOANS APPROVED*

		1997	1998	4Q98	1Q99	2Q99	3Q99
TOTAL	$ millions	75,317	71,861	16,742	17,710	24,712	19,829
	Units	839,107	755,003	181,428	189,877	254,807	196,976
By Type of Lender							
Banks	$ millions	57,245	55,162	12,807	13,560	19,579	15,573
	Units	602,149	549,170	132,683	138,733	195,315	147,485
Trusts	$ millions	7,302	5,954	1,290	1,172	1,545	1,212
	Units	79,727	66,695	14,100	12,617	16,570	12,863
Life Ins. Co.	$ millions	2,718	1,474	308	317	273	193
	Units	48,048	27,103	5,445	5,570	4,679	4,630
Others	$ millions	8,053	9,271	2,338	2,661	3,314	2,851
	Units	109,183	112,035	29,200	32,957	38,243	31,998

(*) Not seasonally adjusted

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

NHA and conventional approvals



Sources: CMHC — CMHC-MAC 2000

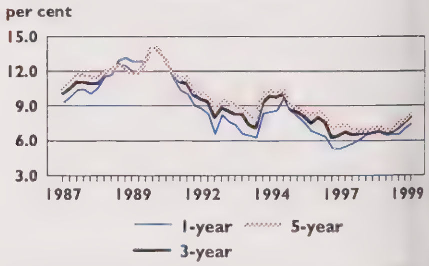
MORTGAGE RATES (%)*

	1997	1998	1999	4Q98	1Q99	2Q99	3Q99	4Q99
1-year	5.54	6.50	6.80	6.37	6.42	6.45	6.97	7.35
3-year	6.56	6.77	7.37	6.63	6.77	7.07	7.60	8.05
5-year	7.07	6.93	7.56	6.83	6.92	7.32	7.75	8.25

* Average of period

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

Mortgage rates



Sources: CMHC, Bank of Canada — CMHC-MAC 2000

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Berta Zaccardi, General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3416.

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Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – N o de commande : MMTSF.

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NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 1999 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
MONTH OF ISSUE: OCTOBER 1999						
NHA-Insured Market Residential Pools (Single Units)						
96-413-448	M.R.S. Trust Company	9,996,978.75	6.000	2004-10-01	6.93	23.36
96-413-455	Pafco Insurance Company	5,022,870.39	6.150	2004-10-01	7.64	23.44
96-413-463	M.R.S. Trust Company	8,627,921.29	5.750	2009-10-01	6.81	22.52
96-413-471	Vancouver City Savings CU	28,248,145.57	5.200	2004-10-15	6.23	21.94
96-413-489	Vancouver City Savings CU	10,642,902.03	5.100	2004-02-01	6.27	20.26
NHA-Insured Market Residential Pools (Mixed)						
96-501-259	CIBC Mtgs Inc./Firstline Mtgs.	13,104,888.66	5.950	2009-10-01	6.63	24.35
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-323	Pafco Insurance Company	6,349,177.96	6.125	2009-10-01	6.76	24.41
96-601-331	Peoples Trust Company	23,915,358.83	5.700	2004-10-04	6.68	24.17
96-601-349	Peoples Trust Company	14,801,822.48	6.000	2009-10-01	6.81	24.95
NHA-Insured Market Residential Pools (No PIP)						
96-702-618	HSBC Bank Canada	3,874,150.67	5.250	2002-10-01	6.71	23.17
96-702-626	HSBC Bank Canada	9,258,714.55	5.250	2004-09-01	6.79	21.95
NHA-Insured Market Residential Pools (No PIP with indemnity)						
97-001-762	Royal Bank of Canada	820,964,704.57	5.000	2003-05-01	6.16	20.18
97-001-770	Royal Bank of Canada	1,364,969,026.13	5.000	2003-10-01	6.22	20.68
97-001-846	MFQ-Vie Corporation d'Assuranc	18,014,810.68	5.100	2004-07-01	6.02	22.05
97-001-853	National Bank of Canada	391,774,618.24	5.000	2004-08-01	6.31	21.76
97-001-861	National Bank of Canada	235,621,256.81	5.000	2004-02-01	6.39	20.39
97-001-879	National Bank of Canada	129,381,425.18	5.000	2004-08-01	6.41	12.29
97-001-887	National Bank of Canada	85,388,195.00	5.000	2004-02-01	6.47	12.60
MONTH OF ISSUE: NOVEMBER 1999						
NHA-Insured Market Residential Pools (Mixed)						
96-501-267	M.R.S. Trust Company	5,685,299.00	6.350	2004-11-01	6.87	25.00
96-501-275	Equitable Trust Company (The)	8,820,769.94	6.250	2009-10-01	7.08	24.87
96-501-283	CIBC Mtgs Inc./Firstline Mtgs.	36,642,250.04	5.800	2009-11-01	6.41	25.42
NHA-Insured Market Residential Pools (No PIP)						
96-702-634	HSBC Bank Canada	7,870,809.71	5.250	2004-10-01	6.72	21.57
NHA-Insured Market Residential Pools (No PIP with indemnity)						
97-001-895	National Bank of Canada	143,913,464.34	5.150	2003-08-01	6.48	12.04
97-001-903	National Bank of Canada	354,384,646.27	5.150	2003-08-01	6.37	19.73
97-001-911	National Bank of Canada	116,082,485.13	5.150	2003-03-01	6.33	19.50
97-001-929	M.R.S. Trust Company	15,503,115.86	5.550	2004-11-01	6.81	23.24
Social Housing Pools						
99-008-112	Toronto-Dominion Bank	16,108,740.00	5.625	2004-11-01	6.60	34.48
99-008-120	Bank of Nova Scotia	5,096,187.47	6.000	2004-11-01	6.76	25.53

NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 1999 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS
MONTH OF ISSUE: DECEMBER 1999						
NHA-Insured Market Residential Pools (Mixed)						
96-501-291	Equitable Trust Company (The)	9,272,183.80	6.350	2004-12-01	7.09	22.82
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-356	Toronto-Dominion Bank	20,281,250.00	6.125	2009-12-01	6.99	30.00
96-601-364	M.R.S. Trust Company	3,618,641.00	6.400	2009-12-01	7.24	25.00
96-601-372	Peoples Trust Company	12,397,969.28	6.250	2004-12-01	7.42	19.75
96-601-380	Peoples Trust Company	4,822,566.63	6.200	2009-12-01	7.29	26.56
NHA-Insured Market Residential Pools (No PIP)						
96-702-642	HSBC Bank Canada	4,060,000.98	5.250	2004-11-01	6.97	21.88
96-702-659	HSBC Bank Canada	3,105,557.82	5.750	2002-12-01	6.96	21.44
NHA-Insured Market Residential Pools (No PIP with indemnity)						
97-001-937	M.R.S. Trust Company	8,990,213.33	6.100	2004-12-01	7.13	23.03
97-001-945	M.R.S. Trust Company	2,461,126.18	6.400	2009-12-01	7.49	22.67
Social Housing Pools						
99-008-138	Toronto-Dominion Bank	55,741,129.01	6.000	2009-12-15	6.51	27.29
99-008-146	Toronto-Dominion Bank	129,582,959.18	6.125	2024-12-01	6.75	29.29

*PIP stands for Penalty Interest Payments

Source: CMHC

CMHC - MAC 2000

DEFINITION OF NHA MBS POOL TYPES

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

NHA MORTGAGE-BACKED SECURITIES

A NEW RECORD NHA MBS VOLUME IN 1999

by Ali Manouchehri, Senior Economist - Capital Markets

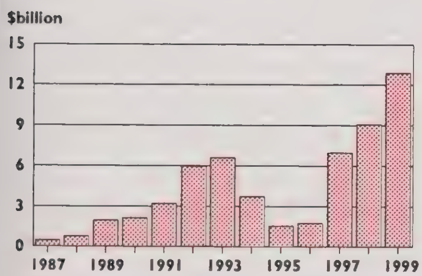
NHA MBS set an all-time record in 1999, with $12.8 billion in new issues, as the rising tide of residential mortgage securititzation forged ahead.

Record volumes of new NHA MBS were issued in 1999 in the third successive year of growth for the program. Over $12.8 billion of new NHA MBS were issued last year, up by 42 per cent from 1998.

By reducing issue costs and improving the issuing process, CMHC's initiative to eliminate the requirement for issuers to provide duplicate registered mortgages was an important contributor to the phenomenal growth of NHA MBS in 1999.

Another positive development was the acceptance of NHA MBS as collateral by the Bank of Canada and the Canadian Payment System.

NHA MBS issues



Source: CMHC CMHC-MAC 2000

A number of factors contributed to the growth of MBS in 1999: a flattening yield curve, which encouraged longer term mortgages; widening spreads between mortgage rates and comparable Government of Canada bonds; the shrinkage of the Government debt supply and the lenders' usage of alternative mortgage funding; and growing mortgage lending and the subsequent pressure on regulatory capital ratios.

Most of these factors will continue in 2000, fostering further utilization of NHA MBS and boding well for the program.

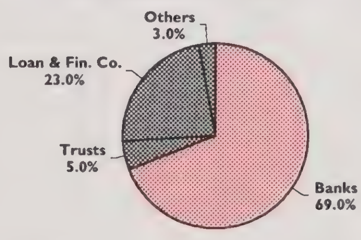
Single family indemnity pools drive volume growth

Single-family mortgage pool types led the way in 1999, with the issue of 88 new pools amounting to $10.8 billion. The single-family indemnity pool 970 continued to remain particularly popular, accounting for nearly 74 per cent of the issued amount last year. While fewer multiple and mixed pools were issued in 1999 than in 1998, social housing pools rose one-and-a-half times.

Chartered banks led the issuers

Chartered banks accounted for 69 per cent of new NHA MBS issues in 1999, matching their share of the primary residential mortgage market. Trusts continued to lose momentum and accounted for only 5 per cent of new issues. Loan and finance companies accounted for nearly a quarter of new issues.

NHA MBS Issues market share - 1999



Source: CMHC CMHC-MAC 2000

NHA MBS highlights - 1999

New issues:

- √ 165 pools for $12.8 billion, up 42 percent from 1998
- √ 88 single family pools amounting to $10.8 billion
- √ issues of social housing pools up by 17 per cent to $1.2 billion

MBS-bond yield spreads:

- √ up about 10 basis points for 5-year term from 1998

Outstanding volume:

- √ some $27.7 billion outstanding, up from $19.1 billion in 1998

Other developments:

- √ CMHC announced the elimination of the requirement for issuers to provide duplicate registered mortgages (DRM) at the initial issuing stage. This was intended to reduce issue costs and improve the issuing process.
- √ Issuers can use NHA MBS as collateral with the Bank of Canada and the Canadian Payment System.

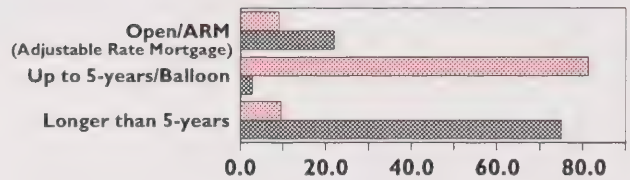
NHA MBS outstanding

Record issues helped raise outstanding volume by $8.6 billion from the previous year to reach $27.7 billion by December 1999. By the end of 1999, NHA MBS accounted for 6.5 per cent of total residential mortgage credit outstanding in Canada, up from 4.7 per cent in 1998. This trend points to the rising significance of NHA MBS in the Canadian housing finance system.

Widening spreads

NHA MBS-Government of Canada bond yield spreads for all pool types widened by approximately 10 basis points in 1999 from the previous year in line with rising mortgage-bond yield spreads. ■

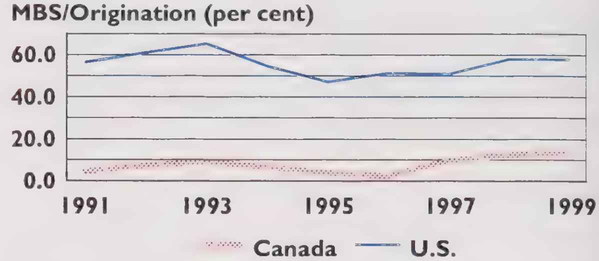
Mortgage term selection



Sources: Mortgage Bankers Association of America, 1999, FIRM Survey, December 1999

CMHC-MAC 2000

MBS plays a more prominent role in funding mortgages in U.S. compared to Canada



Sources: CMHC, Mortgage Bankers' Association of America
1999 data for U.S. is estimate

CMHC-MAC 2000

Mortgage terms are shorter in Canada than in the U.S.

According to recent surveys, long-term fixed-rate mortgages remain popular in the United States, with nearly three out of every four borrowers opting for fixed-rate mortgages of 15 to 30 years. In contrast, nearly one third of current mortgage holders and three out of four first-time mortgagors in Canada select 5-year closed mortgages.

Why is there such a difference in mortgage-term selection between the two countries?

Role of mortgage securitization in mortgage funding

Long-term mortgages are cheaper to securitize because securitization costs are spread over a long period.As a result, longer term mortgages are more suitable for U.S. lenders, who rely more heavily than Canadian lenders on securitization to fund mortgages. MBS accounted for over 55 per cent of mortgage initiation for single-family homes in the United States in the 1990s, compared to 7.5 per cent in Canada over the same period.

Although National Housing Act Mortgage-Backed Securities (NHA MBS) were introduced in 1987 to facilitate securitization of residential mortgages and the growth of the secondary mortgage market, the move toward longer term mortgages has been gradual, in part because of the structure of the mortgage market in Canada and in part because MBS have a relatively short history in Canada.Recent trends suggest the greater availability of longer term mortgages as the secondary mortgage market continues to grow in Canada.

Unscheduled pre-payment penalty

Because mortgagors in the United States normally face a small prepayment penalty, most borrowers opt for the security of longer term fixed-rate mortgages.Three out of four U.S. mortgage borrowers in 1999 selected fixed-rate mortgages for terms of at least 15 years.

In contrast, mortgagors in Canada face a penalty if they repay the mortgage above and beyond the limits set out in the mortgage contract. For instance, if the mortgage is paid in full earlier than called for according to the mortgage contract, the mortgagor is charged either three months' mortgage interest or interest differential associated with the change in the mortgage term, whichever is greater.

Inflationary expectations

Canadian lenders experienced a more severe period of rising inflation in 1970s and early 1980s than did their U.S. counterparts. Lenders remained reluctant to offer long-term mortgages that could expose them to inflation risk until late 1980s.

However, since the mid-1990s, both the actual inflation rate and inflationary expectations have eased in Canada, providing lenders an opportunity to offer longer term mortgages.

Despite the fact that more and more Canadian lenders now offer fixed-rate mortgages of 7, 10, 15 and 25 years, such terms are still not as widely available in Canada as in the United States. As inflation remains subdued, longer term mortgages will likely become more common in Canada.

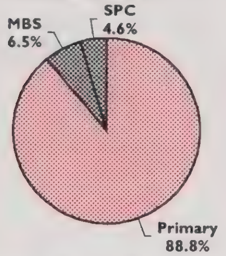
Americans becoming keener for shorter term mortgages, while Canadians are warming up to longer term mortgages

The decade-long economic and associated income growth, along with a more diverse supply of mortgage products in the United States since 1990, has helped Americans become

Continued on page 7

per cent of the overall residential mortgage credit respectively, while the primary market accounted for the rest.

Over $418 billion in mortgage credit outstanding by 1999



Sources: CMHC, Bank of Canada CMHC-MAC 2000

Stable mortgage market structure

Recent trends in market share by institution type continued, with chartered banks accounting for approximately 79 per cent of mortgage initiation and 66 per cent of the outstanding mortgage loans by late 1999. Credit unions retained their second place position, holding a market share of 13.4 per cent of residential mortgage loans.

Mortgage credit will grow by 5.0 per cent in 2000

Robust economic expansion and associated income growth will continue to fuel housing and mortgage markets in 2000. An improving employment outlook will boost demand for new homes and support price increases in both new and resale housing markets, resulting in a strong mortgage market. Mortgage credit is expected to grow by 5.0 per cent. ■

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[1]**Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association**

as many as 65 per cent of those purchasing homes through the real estate board utilized the HBP, while only one in four did so in British Columbia and Alberta.

Ontario and Quebec residents subscribe to HBP more heavily

Participation in the program has varied from province to province and over time. Ontario home buyers accounted for over 41 per cent of both participants and amounts withdrawn in 1999. Quebec accounted for 31 per cent of participants and 36 per cent of the amounts withdrawn, followed by British Columbia and Alberta, accounting for 11 and 7 per cent of the funds withdrawn.

Average withdrawals ranged from a low of $6,736 in New Brunswick to a high of $11,425 in Quebec, reflecting diverse housing markets, the purchasing preferences of home buyers, and financial institutions in these provinces.

Participants typically withdrew from more than one RRSP to buy a home. The average number of withdrawals per participant has been hovering around 1.3 since the inception of the program.

PROVINCIAL PARTICIPATION IN HBP IN 1999

Province	No. of Participants	Average withdrawal ($)
Newfoundland	716	7,565
Prince Edward Island	243	7,301
Nova Scotia	1,786	7,718
New Brunswick	1,166	6,736
Quebec	32,603	11,425
Ontario	43,244	9,808
Manitoba	2,284	6,957
Saskatchewan	1,786	6,965
Alberta	9,466	8,050
British Columbia	11,274	10,107
Northwest Territories	81	10,767
Yukon	81	9,713
National	104,730	9,984

Source: Revenue Canada, 1999 data is preliminary

CMHC - MAC 2000

Wider access to the program and a positive economic climate will continue to encourage many individuals to take advantage of HBP in 2000. ■

more comfortable dealing with the risks of short-term mortgages while enjoying the lower interest costs such mortgages offer.

At the same time, price stability, financial innovation, and mortgage market changes have provided Canadians with an increasing array of mortgage products, including longer term mortgages. The mortgage term selection differences between Canada and the United States are expected to narrow in the years ahead, but to continue in the near future because of entrenched mortgage lending conventions, mortgage market structure and mortgagors' attitudes towards risk. ■

NHA MORTGAGE-BACKED SECURITIES

(Average of period except when indicated)

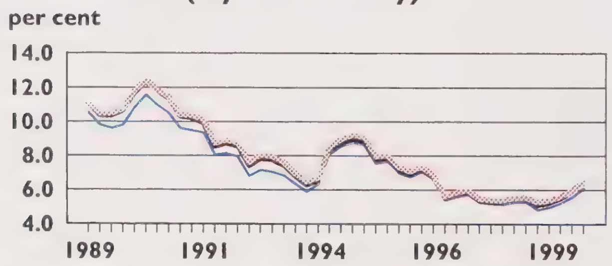
		1998	1999	4Q98	1Q99	2Q99	3Q99	4Q99
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	19,101	27,691	19,101	21,002	22,816	24,598	27,691
	Units	1,152	1,072	1,152	1,136	1,115	1,098	1,072
Residential, single (with PIP *)	$million	1,962	2,208	1,962	2,205	2,310	2,278	2,208
	Units	434	323	434	408	372	353	323
Residential, single (no PIP)	$million	1,398	1,169	1,398	1,339	1,252	1,199	1,169
	Units	213	201	213	216	215	207	201
Residential, single (no PIP with indemnity)	$million	10,029	17,721	10,029	11,608	12,882	14,531	17,721
	Units	143	188	143	154	162	175	188
Residential, multiple	$million	1,414	1,579	1,414	1,390	1,530	1,552	1,579
	Units	97	109	97	98	103	106	109
Social Housing	$million	3,425	3,693	3,425	3,445	3,699	3,777	3,693
	Units	190	150	190	178	173	161	150
Mixed	$million	872	1,321	872	1,015	1,142	1,260	1,321
	Units	75	101	75	82	90	96	101
ISSUES (Total of period)								
TOTAL	$million	9,076	12,854	1,695	2,879	3,071	2,760	4,144
	Units	212	165	39	40	46	40	39
Residential, single (with PIP)	$million	386	1,172	93	566	438	105	63
	Units	32	24	6	7	5	7	5
Residential, single (no PIP)	$million	313	142	97	35	39	40	28
	Units	27	19	6	4	6	4	5
Residential, single (no PIP with indemnity)	$million	6,664	9,473	1,223	1,909	1,728	2,149	3,687
	Units	83	45	10	11	8	13	13
Residential, multiple	$million	158	385	83	32	184	84	86
	Units	18	22	9	3	8	4	7
Social Housing	$million	1,015	1,188	137	182	544	256	207
	Units	23	24	4	6	9	5	4
Mixed	$million	539	493	62	154	138	127	74
	Units	29	31	4	9	10	7	5
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.43	5.86	5.26	5.40	5.61	5.97	6.47
MBS Prepayable (no PIP)		5.49	5.92	5.32	5.46	5.66	6.03	6.52
MBS Non-prepayable		5.34	5.76	5.10	5.23	5.50	5.91	6.42
MBS MMUF		5.39	5.81	5.16	5.29	5.55	5.94	6.47
Mortgage rates		6.93	7.56	6.83	6.92	7.32	7.75	8.25
GOCs		5.13	5.47	4.83	4.98	5.22	5.57	6.10
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.30	0.40	0.43	0.43	0.38	0.40	0.37
Prepayable (no PIP)		0.35	0.45	0.49	0.48	0.44	0.46	0.43
Non-prepayable		0.21	0.30	0.28	0.26	0.27	0.34	0.33
MMUF		0.26	0.35	0.33	0.31	0.33	0.37	0.37
Mortgage rates		1.80	2.09	2.01	1.94	2.09	2.18	2.15

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.

Sources: CMHC, Bank of Canada

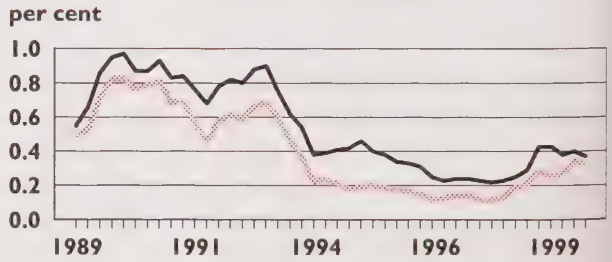
CMHC - MAC 2000

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

Spreads over GOCs (5-year maturity)



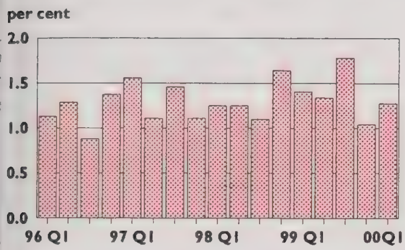
Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Second Quarter, 2000

Residential mortgage credit growth*



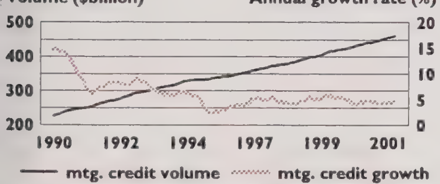
* quarter-over-quarter estimates
Sources: CMHC, Bank of Canada CMHC-MAC 2000

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%)

	1Q99	2Q99	3Q99	4Q99	1Q00e
Banks	65.2	65.5	65.7	65.5	67.9
Trusts	5.9	5.8	5.7	5.5	3.1
Caisse & Co-op	13.5	13.4	13.4	13.6	13.8
Life Ins. Co.	4.9	4.8	4.6	4.6	4.5
Pension Funds	1.9	1.9	1.9	1.9	1.9
Fin. & Loan	8.5	8.6	8.7	8.9	8.8

e: estimate
Sources: Bank of Canada, CMHC CMHC-MAC 2000

Residential mortgage credit



Sources: Bank of Canada, CMHC (2000-2001)
CMHC-MAC 2000

In this Issue:

MORTGAGE LENDING

RESIDENTIAL MORTGAGE CREDIT OUTLOOK FOR 2000-2001

by Philippe LeGoff, Senior Economist

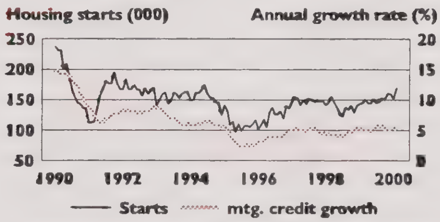
Favourable economic conditions will support further growth in housing markets and residential mortgage credit over the next 18 months. Mortgage credit outstanding will grow by 4.9 per cent this year to surpass $441 billion, and by 4.5 per cent next year, to reach $461 billion by December 2001.

The slowdown in household formation and the general trend toward prepayments will be largely offset by a sustained increase in housing starts, higher prices and a greater number of transactions, even in the face of rising mortgage rates. Mortgage credit outstanding will grow by 4.9 per cent this year to surpass $441 billion, and by 4.5 per cent next year, to reach $461 billion by December 2001.

Solid growth in housing starts and resale prices in 2000 and 2001

Housing starts, the main source of growth in the housing stock, are among the best indicators of mortgage credit growth, as new homes are largely financed through loans. The relationship between these two variables is in fact quite apparent. Housing starts are expected to rise along with mortgage credit, at a growth rate of 6.0 per cent this year, for a total of 158,900 units. Starts will progress by 3.5 per cent in 2001, reaching 164,400 units.

Housing starts and residential mortgage credit growth move together



Sources: Bank of Canada, CMHC CMHC-MAC 2000

The growth in mortgage credit will also be fuelled by transactions on the resale market, which will post an average price increase of more than 4

Continued on page 8

CMHC SCHL

HOME TO CANADIANS

Canada

A DECADE OF RESIDENTIAL MORTGAGE LENDING IN REVIEW: THE 1990S

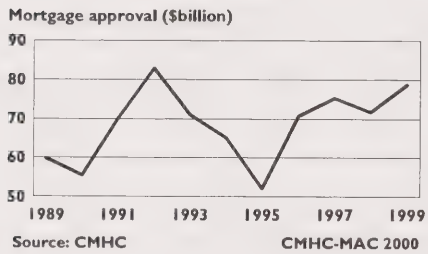
by Ali Manouchehri, Senior Economist - Capital Markets

A growing mortgage lending volume, larger loans, rising concentration of lending activity, bundled mortgage lending, intensified application of new technologies, better informed borrowers, and competitive mortgage lending practices were the earmark of Canadian residential mortgage markets in the 1990s.

Mortgage lending up

Mortgage lending grew in the 1990s, with mortgage approvals[1] as a proxy for mortgage initiation, reaching $78.7 billion in 1999, a 2.8 per cent annual increase since 1989. The growth in mortgage lending was propelled by the perennial homeownership dream. Among the major forces that contributed to increased mortgage lending in the past decade were lower mortgage rates, demographic factors, the introduction of five per cent downpayment, the Home Buyers' Plan, and rising house prices.

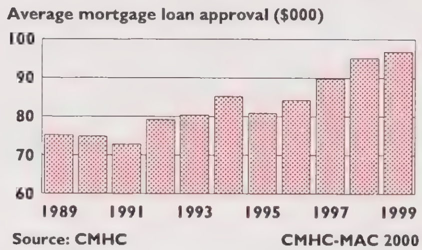
Residential mortgage lending grew in leaps and bounds



Larger loans

The size of the average approved mortgage loan increased from $75,229 in 1989 to $96,670 in 1999, a rate of 2.5 per cent per year. Average loans for new homes grew at an annual pace of 3.5 per cent between 1989 and 1999, to reach $128,715. The average loan for existing homes rose at an annual pace of 2.4 per cent, from $72,535 to $91,873 over the same period. Loans for new homes accounted for 17.3 per cent of total mortgages approved in 1999, unchanged from 1989. The share of loans approved for new homes out of overall mortgage approval peaked at 20.5 per cent in 1990 and dropped to 13.2 per cent in 1992, the lowest level in the decade.

Average mortgage loan on the rise

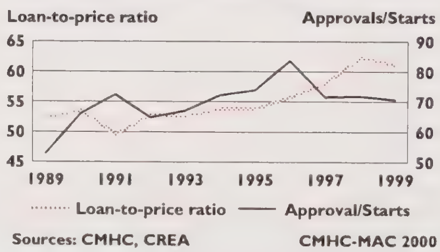


Heavier reliance on mortgages to purchase a home

While the number of newly constructed units ranged from a low of 110,933 in 1995 to a high of 215,382 in 1989, the proportion of those relying on a mortgage loan to purchase a home trended up. The ratio of units approved for a mortgage to housing starts rose from 52.7 per cent in 1989 to 70.7 per cent in 1999.

Heavy reliance on mortgages helped push up the loan-to-value ratio for approved loans relative to the price of units sold through MLS[2] from 52.3 per cent in 1989 to 61.2 per cent last year. Increases in both the size of the average loan and the percentage of buyers of new homes assuming a mortgage contributed to rising financial leverage in the residential market.

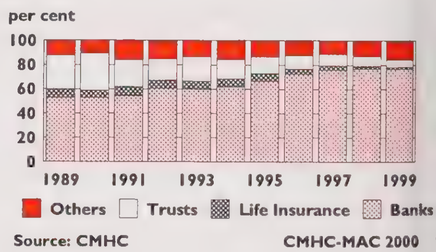
Mortgage loans critical in turning the home ownership dream into reality



Mortgage lending consolidation

The finance industry witnessed significant consolidation in the 1990s. The chartered banks' share of mortgage loans approved rose from 52.6 per cent in 1989 to 82.8 per cent by 1999, in line with the increasing prominence of the banks in the Canadian finance industry.

Market share of mortgage initiation

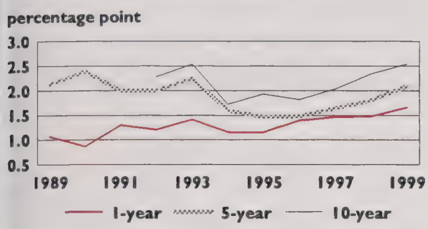


Despite consolidation of mortgage initiation, the mortgage market remained competitive, with many lenders offering similar arrays of mortgage products. Competition helped hold mortgage borrowing costs down, as evidenced by the spread between posted mortgage rates and the costs of funding mortgages approximated by yields on comparable Government of Canada securities.

Continued on page 3

Continued from page 2

Mortgage-bond yield spreads remained in a narrow range



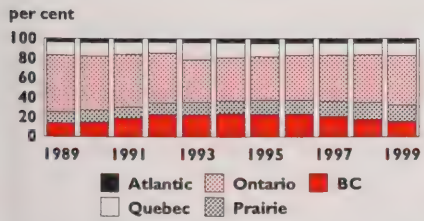
Sources: CMHC, Bank of Canada CMHC-MAC 2000

Regional mortgage lending

Provincial mortgage markets mirrored the housing market in each province. Ontario's resilient housing markets helped the province maintain its overall lead in mortgage initiation over the past decade, though its market share of mortgage approvals declined from 57.7 per cent in 1989 to 50.2 per cent in 1999.

Slower housing markets in British Columbia in recent years moved the province to third place in mortgage approvals, with 15.1 per cent of approved loans in 1999, a marked decline from 23.6 per cent in 1994. Alberta, with strong housing markets since 1997, pushed the Prairie region to second spot in residential lending volume. The Prairie region accounted for 16.5 per cent of mortgage approvals in 1999, with Alberta contributing over three quarters of this amount. Quebec's market share of mortgage approvals nudged down from 13.6 per cent in 1989 to 12.5 per cent last year, peaking at 17.2 per cent in 1993. The Maritimes mortgage market enjoyed stability over the period, with its market share of mortgage approvals edging up to 5.1 per cent in 1999 from 3.7 a decade earlier.

Regional mortgage lending market shares



Source: CMHC CMHC-MAC 2000

Building on the past and looking into the future

Resurrection of longterm mortgages in the early 1990s widened the array of mortgage products available to borrowers. Introduction of various mortgage products with different features made home purchase more feasible for home buyers.

For the most part, mortgage initiation, funding, and servicing continued to remain bundled (that is, handled by the same entity), though steps were taken to diversify funding sources and reduce funding costs. Greater utilization of National Housing Act Mortgage Backed Securities and introduction of Special Purpose Vehicles contributed to further development of the secondary mortgage market in Canada and helped lower mortgage funding costs. Utilization of emerging mortgage insurance tools, such as CMHC's emili[3], helped enhance the efficiency of housing finance in Canada and guide further development of mortgage lending.

Mortgage lending enjoyed the benefits of new telecommunication technology through expansion of mortgage shopping and shorter approval processing. While a decade ago shopping for a mortgage required a visit to a local lender, the Internet has become an increasingly popular tool for locating the best mortgage deals. According to a 1999 survey[4] one in five mortgagors with Internet access used the Internet to shop for a mortgage and 5 per cent of such borrowers secured a pre-approved mortgage on-line. Mortgage lenders have adapted to changing borrowing habits and increasingly sophisticated mortgagors. According to the same survey, one in ten borrowers switched from one lender to another in search of a more suitable mortgage last year, while there was little evidence of such behaviour in the early 1990s.

Some of the factors that affected mortgage lending in the past decade and set the stage for trends in the new century were the introduction of in-store banking and new partnerships between mortgage lenders and mortgage brokers, real estate firms, builders, and renovation warehouses.■

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[1] Mortgage approvals in this report refer to mortgage loans approved by chartered banks, trusts, life insurance, and finance and loan companies, but not by credit unions and caisses populaires.

[2] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

[3] emili is CMHC's automated mortgage insurance approval tool.

[4] FIRM Residential Mortgage Survey, December 1999.

INDICATORS OF MORTGAGE LENDING ACTIVITY

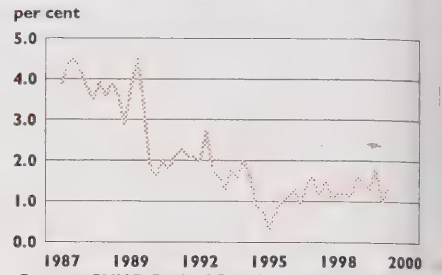
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1997	1998	1999	1Q99	2Q99	3Q99	4Q99	1Q00e
TOTAL	368,651	387,770	409,655	401,015	406,383	413,609	417,917	423,251
% change	5.3	5.2	5.6	1.4	1.3	1.8	1.0	1.3
Banks	222,057	248,026	268,646	261,511	266,208	271,895	273,804	287,554
Trusts	33,679	24,442	23,481	23,731	23,693	23,591	23,090	12,924
Caisse & Co-op	51,687	53,146	54,942	53,975	54,455	55,233	56,748	58,415
Life Ins. Co.	22,071	20,797	19,279	19,761	19,370	19,090	19,079	18,951
Pension Funds	7,997	8,015	7,880	7,803	7,798	7,979	8,111	8,059
Fin. & Loan	31,161	33,343	35,427	34,234	34,859	35,820	37,085	37,348

*Seasonally adjusted data
Sources: Bank of Canada, CMHC

e: estimate
CMHC-MAC 2000

Quarterly residential mortgage credit growth



Sources: CMHC, Bank of Canada CMHC-MAC 2000

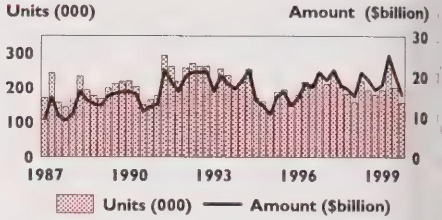
NHA AND CONVENTIONAL LOANS APPROVED *

		1998	1999	1Q99	2Q99	3Q99	4Q99
TOTAL	$ millions	71,714	78,745	17,888	25,121	20,179	15,556
	Units	755,263	814,583	193,488	260,283	201,450	159,362
By Type of Lender							
Banks	$ millions	55,126	60,574	13,505	19,487	15,553	12,028
	Units	549,716	599,482	138,794	195,145	147,891	117,652
Trusts	$ millions	5,881	4,725	1,159	1,525	1,216	824
	Units	66,785	52,470	13,556	16,718	13,080	9,116
Life Ins. Co.	$ millions	1,510	1,049	368	331	198	152
	Units	27,605	19,579	6,448	5,175	4,877	3,079
Others	$ millions	9,197	12,398	2,856	3,778	3,212	2,551
	Units	111,157	143,052	34,690	43,245	35,602	29,515

* Not seasonally adjusted
Sources: Bank of Canada, CMHC

CMHC-MAC 2000

NHA and conventional approvals



Sources: CMHC CMHC-MAC 2000

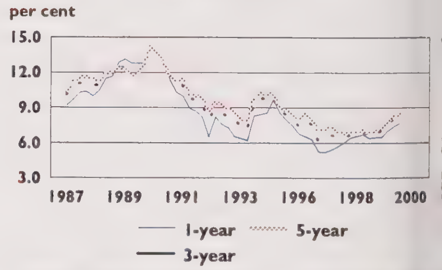
MORTGAGE RATES (%)*

	1997	1998	1999	4Q98	1Q99	2Q99	3Q99	4Q99	1Q00
1-year	5.54	6.50	6.80	6.37	6.42	6.45	6.97	7.35	7.63
3-year	6.56	6.77	7.37	6.63	6.77	7.07	7.60	8.05	8.25
5-year	7.07	6.93	7.56	6.83	6.92	7.32	7.75	8.25	8.48

* Average of period
Sources: Bank of Canada, CMHC

CMHC-MAC 2000

Mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 2000

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca.

For information regarding MBS please call Colin Mills, Acting General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305.

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Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – No de commande : MMTSF.

NHA MORTGAGE-BACKED SECURITIES
JANUARY TO MARCH 2000 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
MONTH OF ISSUE: JANUARY 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-497	Pafco Insurance Co.	12,960,296.34	6.650	2005-01-01	7.93	22.57
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-406	Pafco Insurance Co.	3,335,770.88	6.375	2005-01-01	7.13	23.94
NHA-Insured Market Residential Pools (Non PIP)						
96-702-667	HSBC Bank Canada	5,524,549.80	5.500	2004-12-01	7.11	22.59
Social Housing Pools						
99-008-153	Toronto-Dominion Bank	7,233,028.00	5.875	2005-01-01	6.60	32.51
99-008-161	Bank of Nova Scotia	93,381,460.86	6.450	2025-01-01	7.00	29.02
MONTH OF ISSUE: FEBRUARY 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-505	Pafco Insurance Co.	5,000,712.93	6.750	2005-02-01	8.19	22.87
96-413-513	Pafco Insurance Co.	2,088,798.03	7.000	2010-02-01	8.42	21.23
NHA-Insured Market Residential Pools (Mixed)						
96-501-309	Equitable Trust Company (The)	18,895,613.77	6.450	2010-02-01	7.12	24.14
96-501-317	Equitable Trust Company (The)	6,716,218.34	6.250	2005-02-01	7.33	24.12
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-414	M.R.S. Trust Company	5,266,520.00	6.450	2005-02-01	7.24	24.99
NHA-Insured Market Residential Pools (Non PIP)						
96-702-675	HSBC Bank Canada	4,237,562.77	6.000	2005-01-01	7.36	22.49
96-702-683	HSBC Bank Canada	2,870,173.76	5.250	2003-01-01	7.07	21.76
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-001-960	National Bank of Canada	281,006,699.00	5.250	2004-11-01	6.59	21.73
97-001-978	National Bank of Canada	77,522,009.89	5.600	2009-11-01	6.69	21.56
97-001-986	M.R.S. Trust Company	7,204,270.05	5.850	2004-12-01	6.82	21.74
Social Housing Pools						
99-008-179	Toronto-Dominion Bank	4,774,695.00	6.250	2005-02-01	6.98	35.00
99-008-187	Toronto-Dominion Bank	59,329,436.49	6.750	2025-02-01	7.31	30.94
MONTH OF ISSUE: MARCH 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-539	Vancouver City Savings CU	19,199,932.95	5.350	2005-02-01	6.96	22.11
NHA-Insured Market Residential Pools (Mixed)						
96-501-325	Equitable Trust Company (The)	15,942,139.00	6.400	2010-03-01	7.64	24.03
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-398	Pafco Insurance Co.	2,132,317.48	6.500	2010-03-01	7.45	22.65
96-601-422	Peoples Trust Company	4,175,972.26	6.250	2005-03-01	7.53	23.75
NHA-Insured Market Residential Pools (Non PIP)						
96-702-691	HSBC Bank Canada	3,804,579.89	5.250	2005-02-01	7.21	22.27
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-001-994	M.R.S. Trust Company	6,997,760.95	6.400	2005-03-01	7.67	23.74
97-002-000	M.R.S. Trust Company	8,502,740.67	5.750	2008-12-01	6.54	20.60
Social Housing Pools						
99-008-195	Toronto-Dominion Bank	78,651,927.51	6.500	2005-03-01	7.02	29.01
99-008-203	Bank of Nova Scotia	18,150,790.91	6.450	2005-03-01	7.03	26.50

*PIP stands for Penalty Interest Payments

Source: CMHC

CMHC - MAC 2000

Definition of NHA MBS pool types are provided on page 7.

NHA MORTGAGE-BACKED SECURITIES

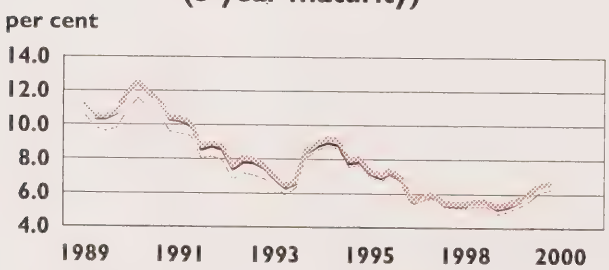
(Average of period except when indicated)

		1998	1999	1Q99	2Q99	3Q99	4Q99	1Q0
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	19,101	27,691	21,002	22,816	24,598	27,691	27,709
	Units	1,152	1,072	1,136	1,115	1,098	1,072	1,052
Residential, single (with PIP)	$million	1,962	2,208	2,205	2,310	2,278	2,208	2,171
	Units	434	323	408	372	353	323	301
Residential, single (no PIP)	$million	1,398	1,169	1,339	1,252	1,199	1,169	1,142
	Units	213	201	216	215	207	201	199
Residential, single (no PIP with indemnity)	$million	10,029	17,721	11,608	12,882	14,531	17,721	17,701
	Units	143	188	154	162	175	188	193
Residential, multiple	$million	1,414	1,579	1,390	1,530	1,552	1,579	1,565
	Units	97	109	98	103	106	109	111
Social Housing	$million	3,425	3,693	3,445	3,699	3,777	3,693	3,782
	Units	190	150	178	173	161	150	146
Mixed	$million	872	1,321	1,015	1,142	1,260	1,321	1,348
	Units	75	101	82	90	96	101	102
ISSUES (Total of period)								
TOTAL	$million	9,076	12,854	2,879	3,071	2,760	4,144	755
	Units	212	165	40	46	40	39	26
Residential, single (with PIP)	$million	386	1,172	566	438	105	63	39
	Units	32	24	7	5	7	5	4
Residential, single (no PIP)	$million	313	142	35	39	40	28	16
	Units	27	19	4	6	4	5	4
Residential, single (no PIP with indemnity)	$million	6,664	9,473	1,909	1,728	2,149	3,687	381
	Units	83	45	11	8	13	13	5
Residential, multiple	$million	158	385	32	184	84	86	15
	Units	18	22	3	8	4	7	4
Social Housing	$million	1,015	1,188	182	544	256	207	262
	Units	23	24	6	9	5	4	6
Mixed	$million	539	493	154	138	127	74	42
	Units	29	31	9	10	7	5	3
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.43	5.86	5.40	5.61	5.97	6.47	6.62
MBS Prepayable (no PIP)		5.49	5.92	5.46	5.66	6.03	6.52	6.67
MBS Non-prepayable		5.34	5.76	5.23	5.50	5.91	6.42	6.56
MBS MMUF		5.39	5.81	5.29	5.55	5.94	6.47	6.60
Mortgage rates		6.93	7.56	6.92	7.32	7.75	8.25	8.48
GOCs		5.13	5.47	4.98	5.22	5.57	6.10	6.27
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.30	0.40	0.43	0.38	0.40	0.37	0.35
Prepayable (no PIP)		0.35	0.45	0.48	0.44	0.46	0.43	0.40
Non-prepayable		0.21	0.30	0.26	0.27	0.34	0.33	0.29
MMUF		0.26	0.35	0.31	0.33	0.37	0.37	0.34
Mortgage rates		1.80	2.09	1.94	2.09	2.18	2.15	2.22

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

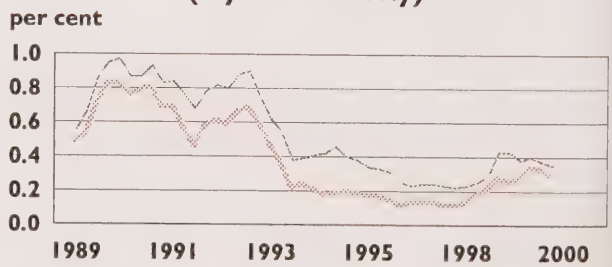
CMHC - MAC 2000

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

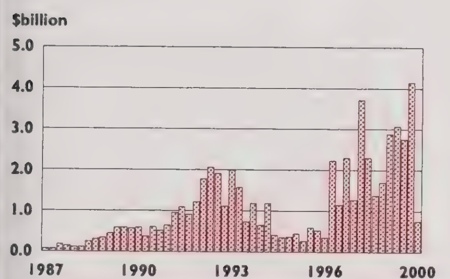
NHA MORTGAGE-BACKED SECURITIES

NHA MBS SLOWS

by Ali Manouchehri, Senior Economist - Capital Markets

Lingering concerns over Y2K-related problems and limited use of NHA MBS as collateral in Large Value Transfer Systems contributed to lower NHA MBS issues in the first quarter of this year, with $755 million in new issues.

Somewhat higher mortgage rates, combined with rising inflation concerns and subsequent volatility in financial markets, also helped slow demand for mortgages and issuance of NHA MBS in the first quarter of 2000, with 26 new pools issued, totaling $755 million. This was well off the record pace of $4.1 billion in the previous quarter.



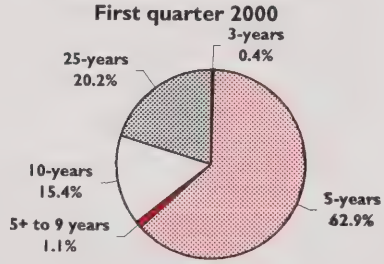
Social housing pools were the bright spot

Except for social housing pools, all pool types declined during the first quarter of 2000. Social housing pools rose nearly 27 per cent over the previous quarter to reach $262 million.

Single family indemnity pools issued during the quarter were at only about 10 per cent of the level of volume issued in the previous quarter. However, single-family indemnity pool 970 remained popular, accounting for over 50 per cent of all issues between January and March and leading the way with the issue of five new pools amounting to $381.2 million.

Longer term issues dominant

While the 5-year term is the largest component of NHA MBS issues, those with terms of longer than five years accounted for 36.7 per cent of the new issues during the quarter.



Chartered banks led the issuers

Chartered banks accounted for 84.3 per cent of new NHA MBS issues, surpassing their share of the primary residential mortgage market, of roughly three quarters. Trusts accounted for about 10 per cent of new issues, up from 5.0 per cent in 1999. Loan and finance companies accounted for under 4.0 per cent of the new issues.

NHA MBS outstanding

The decrease in the number of issues of NHA MBS kept the outstanding volume close to 27.7 billion in the first quarter of 2000, accounting for 6.5 per cent of total residential mortgage credit outstanding in Canada.

NHA MBS highlights
First quarter 2000

New issues:

- √ 26 pools for $754.9 million
- √ 13 single family pools amounting to $436.9 million
- √ issues of social housing pools up by 26.6 per cent to $261.5 million

MBS-bond yield spreads:

- √ on average narrowed by 3 basis points from the last quarter

Outstanding volume:

- √ some $27.7 billion outstanding, up by $18.5 million from the previous quarter

Little change in spreads

NHA MBS-Government of Canada bond yield spreads for all pool types narrowed by approximately three basis points in the first quarter of 2000. The average spreads were about 30 basis points for non-prepayable polls and 40 basis points for prepayable polls.

Positive outlook

Future issues of NHA MBS will be supported by a number of factors: a flat yield curve, promoting consumer preference for longer term mortgages; the dwindling of term deposits at financial institutions, traditionally a major source of mortgage funding; the growth of mortgage lending and the subsequent pressure on regulatory capital ratios; and reduced issuing costs and the use of these securities as collateral in Large Value Transfer Systems (LVTS). ■

Definition of NHA MBS pool types are provided on page 7

A SNAPSHOT OF CANADIAN MORTGAGE HOLDERS

by Louis Trottier, Senior Economist and Ali Manouchehri, Senior Economist-Capital Markets

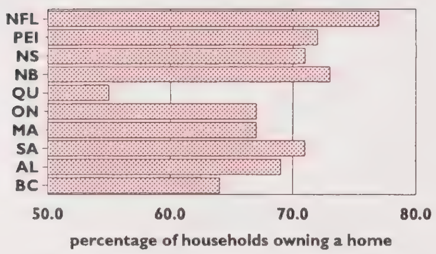
Canadians place a high value on home ownership and invest large amounts of money in their homes. Nearly two of every three households own their homes, and half of them carry a mortgage. Mortgage payments account, on average for approximately one fifth of a household's disposable income.

Home ownership is the rule

The home ownership dream has turned into reality for the majority of households; approximately 64 per cent of 11.4 million Canadian households now own their homes.

Newfoundland leads the nation with a home ownership rate of 77 per cent, followed closely by New Brunswick, Prince Edward Island, Nova Scotia and Saskatchewan, all of which offer modestly priced homes.

Home ownership more common in Atlantic Canada



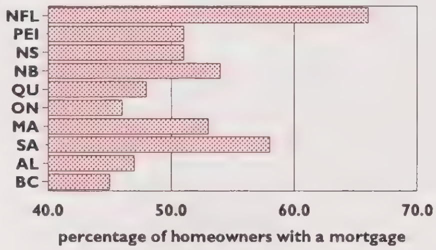
Source: Statistics Canada, Survey of Household Spending, 1997-98 MAC 2000

At the other end of the spectrum, the home ownership rate in Quebec is only 55 per cent despite a modestly priced housing market. This is due, in part, to a historically strong rental market, which has offered residents a wide array of housing options. Manitoba's home ownership rate of 67 per cent is somewhat below that of other provinces with similar house prices.

Mortgage-holder home owners

The keen desire for home ownership led to a mortgage debt of over $423.3 billion in early 2000. Some 48 per cent of all home owners hold a mortgage, with Newfoundland residents taking the top spot at 66 per cent despite modestly priced homes in the province, while 55 per cent of British Columbia home owners live a mortgage-free life.

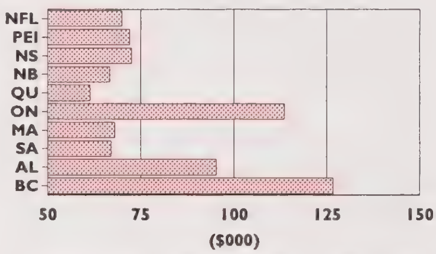
Nearly one half of home owners carry a mortgage



Source: Statistics Canada, Survey of Household Spending, 1997-98 MAC 2000

The average loan approved in 1999 was about $97,000, with British Columbia residents borrowing the largest amount, $126,000, and Quebec home owners assuming the smallest loans, at $61,000.

Average mortgage loan approved



Source: CMHC, Canadian Housing Statistics, 1999 MAC 2000

A recent survey[1] shows that average mortgage debt is about $77,000 per home owner. Home owners in British Columbia lead the way with an average mortgage of $106,000, while their Atlantic counterparts carry the smallest mortgage debt, at $60,000. An average home owner has been making mortgage payments for ten years.

Mortgage payments account for one fifth of the disposable income of home owners

A mortgage is normally paid off over a relatively long period and accounts for a sizable portion of a home owner's income. Home owners in Saskatchewan spend about 18 per cent of their disposable income[2] on mortgage payments, compared to those in British Columbia, who spend slightly over 25 per cent on average.

B.C. home owners spend a larger portion of their disposable income on mortgages

Sources: Statistics Canada, CMHC MAC 2000

Non-mortgage-related home ownership costs are significant

While mortgage payments represent the largest component of home ownership costs, at 21 per cent, related costs, such as property taxes and utilities, account for over 15 per cent of disposable income.

Mortgage and shelter costs lower for higher income earners

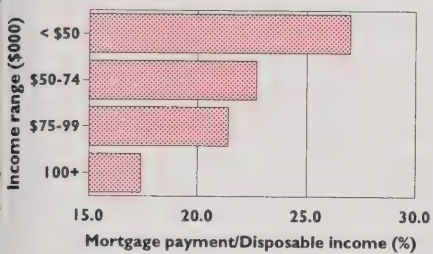
As home owner income rises, mortgage payments become less of a burden. Home owners with a disposable income of less than

Continued on page 7

:ontinued from page 6

;50,000 on average spend 27 per cent ›f their income on mortgage payments :ompared to 17 per cent for home ›wners with a disposable income of ›ver $100,000.

Mortgage payments constitute a smaller burden as household income rises

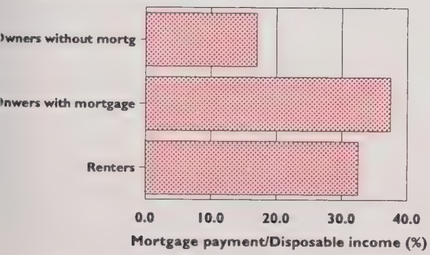


Sources: Statistics Canada, CMHC
MAC 2000

·lome owners with a mortgage ›ay a larger share of their income or shelter

Home owners who have paid off heir mortgage face the smallest helter-to-disposable income ratio, at 7 per cent, while home owners with mortgage carry the heaviest burden, 7 per cent. Renters pay about 32 per ent of their disposable income for helter-related costs.

Home owners with a mortgage have the heaviest shelter costs/income ratio



Sources: Statistics Canada, CMHC
MAC 2000

ıcome more important than ge in lowering mortgage burden

In general, older home owners ave had more time to pay off their ıortgages and have a smaller ıortgage payment-to-disposable ıcome ratio. However, this ratio does ot change substantially with age ›ithin each income group--those earning less than $50,000, regardless of age, spend between 21.7 per cent and 25.9 per cent of their disposable income on mortgage payments. On the other hand, higher incomes have a prominent role in lightening the mortgage burden. Similar results apply to shelter-to-disposable income ratio, except for younger high-income home owners with a mortgage. ■

RATIO OF MORTGAGE PAYMENTS TO DISPOSABLE INCOME FOR HOME OWNERS

Income group ($000)	Less than $50	$50-74	$75-99	$100 plus
Age				
20-24	23.1%	15.3%	17.6%	3.6%
25-44	25.1%	21.7%	19.6%	17.1%
45-54	25.9%	20.7%	18.5%	15.0%
55-65	25.5%	20.9%	17.7%	12.5%
65+	21.7%	16.8%	11.4%	17.2%

Sources: Statistics Canada, CMHC

CMHC - MAC 2000

NHA MORTGAGE-BACKED SECURITIES POOL TYPE DEFINITIONS

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

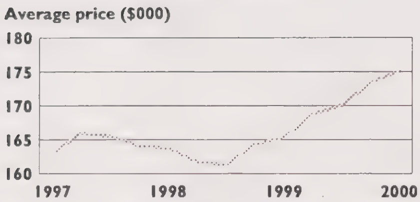
965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

Continued from page 1

per cent through 2001. The resale price increase has been particularly vigorous since the second half of 1998, especially in large urban centres.

In fact, 1998 marked a turning point for residential real estate prices in Canada after five years of stagnation.

Average resale price
25 major markets



Sources: Canadian Real Estate Association, CMHC
CMHC-MAC 2000

Healthier public finances, a lighter tax burden and strong job creation have brought about greater optimism and higher incomes among households, which now entertain a more positive view of real estate.

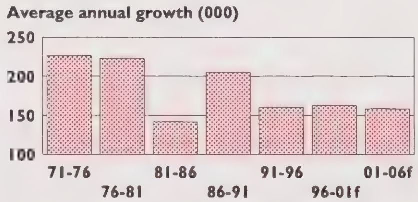
Households in Canada, like those in the United States, are buying larger and larger homes, and the proportion of single-detached houses to total starts has grown in the last few years. It is difficult, however, to accurately assess the impact of this phenomenon on the demand for mortgage credit or to determine the proportion of this growth financed through loans and through equity.

The other side of the coin: the ageing of the population

The current growth phase of real estate markets partly constitutes a recovery period following a sluggish mid-1990s. CMHC forecasts a continued high level for new residential construction in the near future.

Over the longer term, the volume of starts will gradually ease unless housing demand is buoyed up by higher immigration levels. This prospect will also be a determining factor in mortgage credit growth in Canada. The current mortgage credit growth rate could be viewed as at its peak, because in the future the borrowing age population will grow more slowly and strong repayment patterns will emerge. In fact, the 45-64 age group will continue to increase its demographic weight over the next few years. Baby boomers are reaching an age when they are saving more and paying off debts, including mortgage debts, in preparation for retirement.

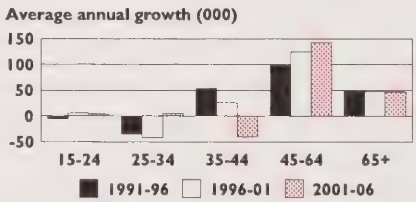
Household growth



Sources: Statistics Canada, CMHC (1997-2006)
CMHC-MAC 2000

At the opposite end of the spectrum, young households buying their first home (normally those between 25-34 years of age) and those purchasing a second residence (aged 35-44 years) will see their numbers stagnate or drop over the next few years.

Households by age group



Sources: Statistics Canada, CMHC (1997-2006)
CMHC-MAC 2000

What to do from now until 2015?

The Canadian mortgage market is maturing, and prospects for growth are limited. In fact, most Canadian lending institutions have understood this and are increasingly turning to the international scene to ensure growth in the area of mortgage lending, as in other sectors.

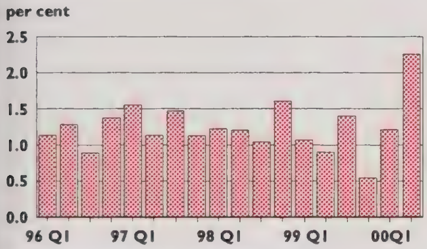
The current transition period may be the right time to think about mortgages and other financial products that will be needed by an older society, as ageing in 2010 and 2015 will be different from ageing in 1950 and 1960. ■

CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Third Quarter, 2000

Residential mortgage credit growth*



* quarter-over-quarter estimates
Sources: CMHC, Bank of Canada CMHC-MAC 2000

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%)

	2Q99	3Q99	4Q99	1Q00	2Q00e
Banks	65.8	66.3	66.4	69.2	70.3
Trusts	5.6	5.4	5.2	2.8	1.8
Caisse & Co-op	13.3	13.3	13.2	13.2	13.1
Life Ins. Co.	4.7	4.5	4.4	4.4	4.3
Pension Funds	1.9	1.9	2.0	2.1	2.0
Fin. & Loan	8.6	8.7	9.0	8.9	8.8

e: estimate

Sources: Bank of Canada, CMHC CMHC-MAC 2000

In this Issue:

MORTGAGE LENDING

RESIDENTIAL MORTGAGE CREDIT MARCHES ON

by Claude Lapointe, Senior Economist

Mortgage credit continued to expand in the second quarter of 2000, increasing by 2.2 per cent over levels in the first quarter of the year thanks to vibrant housing markets in most parts of the country.

The construction market in Canada slowed in the second quarter, largely as a result of the strike by concrete mixer drivers in Toronto. However, this slowdown did not affect mortgage loan activity, which registered a nation-wide increase of 2.2 per cent in the second quarter to reach $427 billion. Despite the momentary slowdown in construction, the housing market remains healthy in most regions, thanks to a robust resale market.

Mortgage rate increases take their toll

Mortgage rates remained volatile in the second quarter, with concerns over inflation here and abroad. One-year Canadian mortgage rates reached 8.3 per cent in mid-May, and five-year rates jumped to 8.75 per cent, before nudging downward. Continued relatively low rates bode well for the Canadian housing market. However, higher rates in recent months dampened mortgage prepayment somewhat, leading to a larger gain than expected in mortgage credit.

Chartered banks' share surpasses 70 per cent

Banks continued to increase their share of the mortgage loan market at the expense of life insurance and trust companies. Banks, which held 58.8 per cent of the market in the second quarter of 1997, accounted for 65.3 per cent of the market two years later and passed the 70 per cent mark in the second quarter of this year.

Continued on page 8

CMHC SCHL

HOME TO CANADIANS

Canada

PROVINCIAL MORTGAGE MARKETS: A POSITIVE OUTLOO[K]

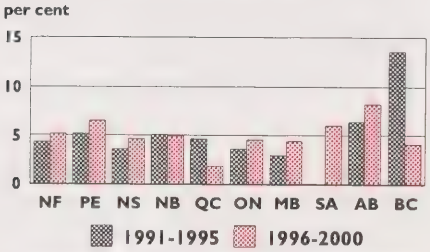
by Ali Manouchehri, Senior Economist - Capital Markets

Ontario and Alberta will lead the provinces in mortgage credit growth in 2000-2001. Mortgage rates, home construction, dwelling sales, and house price appreciation will all be moderate and bode well for mortgage lending in 2000-2001.

Nationally, growth in mortgage credit slowed to 4.3 per cent annually in the second half of the 1990s after a 5.5 per cent increase in the first half of the decade.

The slower mortgage credit expansion corresponded to lower and more moderate home construction, sales, and price growth in British Columbia and Quebec, which was only partially offset by stronger performance in Ontario and Alberta.

Average annual residential mortgage credit growth rate

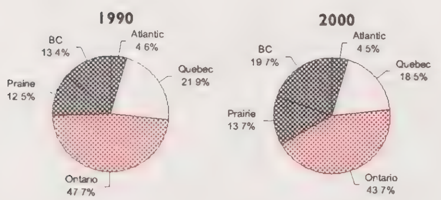


Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2000

British Columbia ranks second behind Ontario in market size

Residential mortgage credit levels have traced housing market trends in each province and, accordingly have varied from province to province over time.

Regional distribution of residential mortgage loans outstanding



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2000

British Columbia's vibrant housing industry in the first half of the 1990s caused the provincial mortgage credit to grow by an average of 13.6 per cent per year between 1990 and 1995, much faster than any other province. This rapid pace pushed British Columbia ahead of Quebec in terms of its mortgage market size despite the fact that its housing stock is only about half of the stock in Quebec, and positioned it second only to Ontario. However, a slow down in home construction and sales in the province has lowered mortgage credit growth to 4.1 per cent per year since 1996.

Residential mortgage credit outstanding & housing stock by province, June 2000

Province	Mortgage loans ($m)*	Housing stock (units)*
NF	2,727	210,099
PE	910	50,020
NS	7,022	367,098
NB	4,332	282,512
QC	61,329	3,078,063
ON	144,676	4,332,957
MB	7,812	447,620
SA	5,770	405,152
AB	31,176	1,091,778
BC	64,653	1,546,010
Total	330,406	11,811,309

Source: CMHC, Statistics Canada, Bank of Canada
* Estimate

Results presented in this article are based on data for lenders that provide breakdowns by province. These include chartered banks, independent trust and mortgage companies, and credit unions. The mortgage credit outstanding for these institutions at midyear 2000 reached $331.4 billion, representing approximately 77.6 per cent of the $381.3 billion in total primary mortgages for all financial institutions.

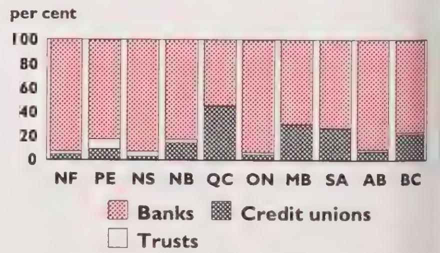
Chartered banks lead in market share

Nearly 90 per cent of residential mortgage loans are with chartered banks, credit unions, and mortgage an[d] trust companies. However, market share by institution type varies from one province to another due to the nature and structure of housing and finance sectors in each province.

Credit unions account for over 44.7 per cent of the outstanding mortgage credit in Quebec. At the other end of the spectrum is Nova Scotia, where credit unions hold a market share of only 3.5 per cent.

The market share for trust and mortgage companies ranges from a low of 0.7 per cent in Quebec to a high of 7.3 per cent in Prince Edward Island.

Market share of residential mortgage credit by lender type*, June 2000



Sources: CMHC, Bank of Canada, Statistics Canada
* Excludes other lender types CMHC-MAC 2000

Chartered banks enjoy the largest share of residential loans outstanding in every province, from 49.7 per cent in Quebec to nearly 93 per cent in Ontario, Newfoundland and Nova Scotia.

Continued on page 3

NHA MORTGAGE-BACKED SECURITIES

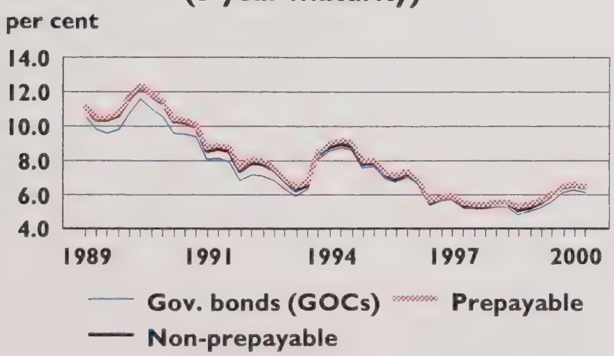
(Average of period except when indicated)

		1998	1999	2Q99	3Q99	4Q99	1Q00	2Q00
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	19,101	27,691	22,816	24,598	27,691	27,709	27610
	Units	1,152	1,072	1,115	1,098	1,072	1,052	1043
Residential, single (with PIP)	$million	1,962	2,208	2,310	2,278	2,208	2,171	2097
	Units	434	323	372	353	323	301	285
Residential, single (no PIP)	$million	1,398	1,169	1,252	1,199	1,169	1,142	1071
	Units	213	201	215	207	201	199	193
Residential, single (no PIP with indemnity)	$million	10,029	17,721	12,882	14,531	17,721	17,701	17621
	Units	143	188	162	175	188	193	204
Residential, multiple	$million	1,414	1,579	1,530	1,552	1,579	1,565	1563
	Units	97	109	103	106	109	111	115
Social Housing	$million	3,425	3,693	3,699	3,777	3,693	3,782	3902
	Units	190	150	173	161	150	146	141
Mixed	$million	872	1,321	1,142	1,260	1,321	1,348	1356
	Units	75	101	90	96	101	102	105
ISSUES (Total of period)								
TOTAL	$million	9,076	12,854	3,071	2,760	4,144	755	967
	Units	212	165	46	40	39	26	26
Residential, single (with PIP)	$million	386	1,172	438	105	63	39	28
	Units	32	24	5	7	5	4	2
Residential, single (no PIP)	$million	313	142	39	40	28	16	0
	Units	27	19	6	4	5	4	0
Residential, single (no PIP with indemnity)	$million	6,664	9,473	1,728	2,149	3,687	381	566
	Units	83	45	8	13	13	5	11
Residential, multiple	$million	158	385	184	84	86	15	83
	Units	18	22	8	4	7	4	6
Social Housing	$million	1,015	1,188	544	256	207	262	270
	Units	23	24	9	5	4	6	4
Mixed	$million	539	493	138	127	74	42	21
	Units	29	31	10	7	5	3	3
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.43	5.86	5.61	5.97	6.47	6.62	6.49
MBS Prepayable (no PIP)		5.49	5.92	5.66	6.03	6.52	6.67	6.54
MBS Non-prepayable		5.34	5.76	5.50	5.91	6.42	6.56	6.42
MBS MMUF		5.39	5.81	5.55	5.94	6.47	6.60	6.48
Mortgage rates		6.93	7.56	7.32	7.75	8.25	8.48	8.52
GOCs		5.13	5.47	5.22	5.57	6.10	6.27	6.13
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.30	0.40	0.38	0.40	0.37	0.35	0.36
Prepayable (no PIP)		0.35	0.45	0.44	0.46	0.43	0.40	0.42
Non-prepayable		0.21	0.30	0.27	0.34	0.33	0.29	0.30
MMUF		0.26	0.35	0.33	0.37	0.37	0.34	0.35
Mortgage rates		1.80	2.09	2.09	2.18	2.15	2.22	2.39

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

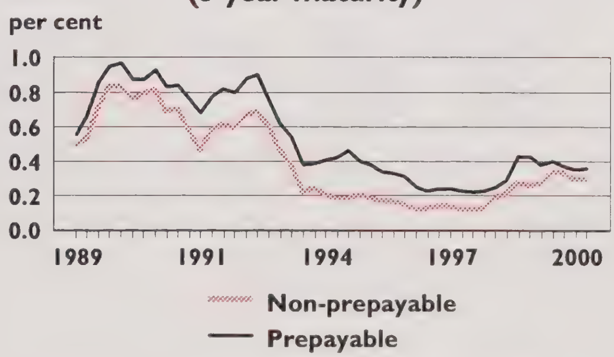
CMHC - MAC 2000

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2000

NHA MORTGAGE-BACKED SECURITIES

APRIL TO JUNE 2000 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	AMORTIZATION (YRS)
Month of Issue: April 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-521	Alberta Motor Assoc.Insur.Comp	10,888,528.89	6.300	2005-04-01	8.33	23.21
NHA-Insured Market Residential Pools (Mixed)						
96-501-333	Equitable Trust Company (The)	8,892,467.61	6.150	2005-04-01	7.41	19.99
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-430	Peoples Trust Company	23,319,094.04	6.250	2010-04-01	7.25	24.14
96-601-448	Peoples Trust Company	2,368,740.00	6.450	2020-04-01	7.75	25.00
96-601-455	Equitable Trust Company (The)	2,856,358.58	5.750	2001-05-01	6.87	19.33
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-001-952	Bank of Montreal	317,595,397.39	6.250	2005-04-01	7.42	22.48
97-002-18	National Bank of Canada	97,551,474.56	5.750	2005-01-01	7.29	21.84
97-002-26	MFQ-Vie Corporation d'Assurance	7,800,925.67	5.950	2005-04-01	7.15	22.58
97-002-34	MFQ-Vie Corporation d'Assurance	4,951,877.26	5.250	2004-01-01	6.40	19.98
Social Housing Pools						
99-008-211	Toronto-Dominion Bank	102,240,092.67	6.125	2005-04-01	6.72	28.49
Month of Issue: May 2000						
NHA-Insured Market Residential Pools (Mixed)						
96-501-341	Equitable Trust Company (The)	9,532,811.24	6.600	2010-05-01	7.38	20.50
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-463	Peoples Trust Company	15,000,739.88	6.400	2010-05-01	7.21	24.01
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-002-042	M.R.S. Trust Company	6,343,525.94	6.250	2005-05-01	7.70	22.99
97-002-059	Bank of Montreal	50,960,423.85	6.750	2005-05-01	7.71	22.44
97-002-067	MFQ-Vie Corporation d'Assurance	9,820,434.53	5.100	2004-11-01	6.23	21.64
97-002-075	MFQ-Vie Corporation d'Assurance	5,648,765.84	6.500	2005-05-01	7.42	22.09
Social Housing Pools						
99-008-229	Bank of Nova Scotia	2,226,480.00	5.850	2005-05-01	6.52	35.00
99-008-237	Toronto-Dominion Bank	74,077,537.82	5.750	2005-05-01	6.41	27.97
Month of Issue: June 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-562	Alberta Motor Assoc.Insur.Comp	17,034,706.07	6.100	2005-06-01	8.19	22.61
NHA-Insured Market Residential Pools (Mixed)						
96-501-358	Equitable Trust Company (The)	2,340,797.85	6.800	2020-06-01	7.85	35.00
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-471	Peoples Trust Company	20,102,066.16	5.550	2005-06-01	6.96	21.76
96-601-489	Peoples Trust Company	19,493,651.72	6.400	2010-06-01	7.86	26.69
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-002-083	M.R.S. Trust Company	9,995,962.60	6.700	2005-06-01	7.69	23.07
97-002-091	Bank of Montreal	42,685,512.98	6.500	2005-06-01	7.71	11.16
97-002-109	MFQ-Vie Corporation d'Assurance	12,219,463.32	6.250	2005-06-01	7.35	22.15
Social Housing Pools						
99-008-245	Toronto-Dominion Bank	90,992,288.17	6.250	2005-06-01	7.01	31.33

*PIP stands for Penalty Interest Payments

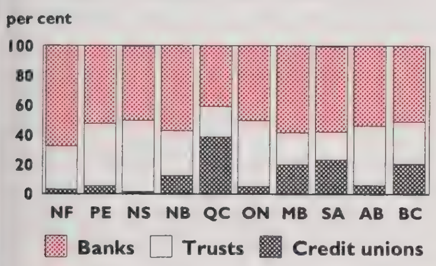
Source: CMHC

CMHC - MAC 2000

Continued from page 2

The market share for lenders has also changed over time in response to changes in the finance industry. While independent trusts held over one third of mortgage loans in the Maritimes, Ontario, and Alberta in early 1990, a decade later they accounted for less than 8.0 per cent of the residential mortgage loans outstanding.

Market share of residential mortgage credit by lender type*, June 1990



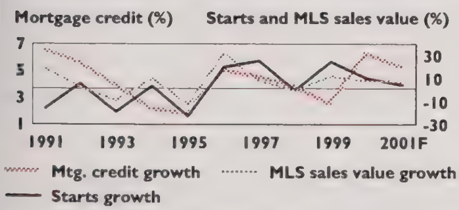
Sources: CMHC, Bank of Canada, Statistics Canada
* Excludes other lender types CMHC-MAC 2000

Regional mortgage market outlook for 2000-2001

Ontario will hold the key

Ontario's healthy economy has led to rising housing starts, mortgage lending activity and mortgage credit growth since 1996. This trend is likely to continue.

Ontario will lead other provinces in mortgage credit growth in 2000-2001



Sources: CMHC, Statistics Canada, Bank of Canada
CMHC-MAC 2000

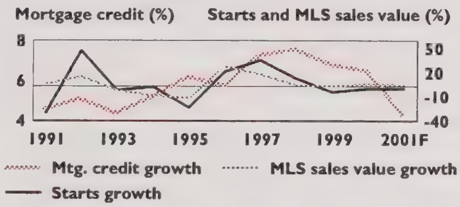
Housing starts, home sales, and prices are forecast to rise in Ontario in 2000-2001, thanks to strong exports and consumer demand. As a result, mortgage credit is expected to grow by 6.3 per cent this year and 5.0 per cent next year.

Since Ontario accounts for about 43.7 per cent of outstanding mortgage loans and 36.7 per cent of housing stock, any improvement in the province's housing and mortgage market will translate to a stronger national mortgage market.

Prairie regional mortgage market will remain vibrant

A strong Alberta economy has propelled the housing and mortgage markets in Alberta and the Prairie region as a whole over the last few years. However, growth in housing, and consequently in mortgage markets, is expected to ease somewhat this year and next. Alberta will lead regional mortgage credit growth, while Saskatchewan and Manitoba will continue their slower growth pattern.

Prairie mortgage market marches on



Sources: CMHC, Statistics Canada, Bank of Canada
CMHC-MAC 2000

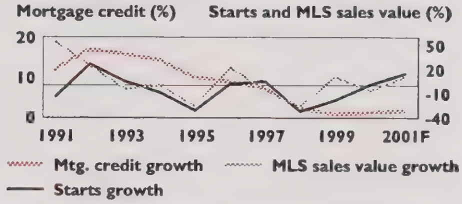
The Prairie region is expected to experience mortgage credit growth rates of 6.0 per cent this year and 4.0 per cent in 2001.

Despite strong housing markets in recent years, the Prairie region's share of mortgage credit (around 13.5 per cent) will continue to remain below its share of the national housing stock (16.2 per cent), reflecting lower indebtedness of Prairie homeowners.

British Columbia's mortgage market improving

B.C.'s mortgage market grew fast and outstanding residential loans expanded at an annual rate of 13.6 per cent in the first half of this decade, the fastest of any province. However, the pace of home construction and sales dampened in line with the economy, and mortgage credit growth began to ease to 4.1 per cent per year starting in 1996.

British Columbia's mortgage market recovering slowly in 2000-01



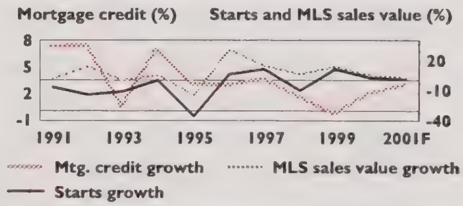
Sources: CMHC, Statistics Canada, Bank of Canada
CMHC-MAC 2000

The continued slowdown will likely constrain mortgage credit growth to under 2.0 per cent this year and next. The weaker pace of housing and mortgage markets in B.C. will have an appreciable impact on the national mortgage market since the province now accounts for nearly 20 per cent of national mortgage credit outstanding.

Quebec's mortgage market will benefit from higher starts and sales

Quebec's mortgage market has grown at a slower pace than the national average since the mid 1990s, a pattern duplicated in its housing market.

Quebec mortgage market posed for moderate growth



Sources: CMHC, Statistics Canada, Bank of Canada
CMHC-MAC 2000

Continued on page 8

INDICATORS OF MORTGAGE LENDING ACTIVITY

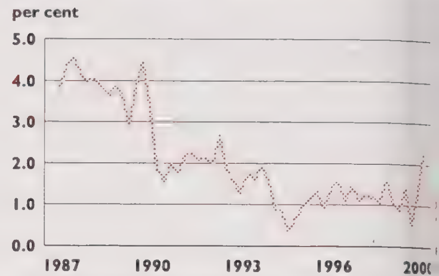
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1997	1998	1999	2Q99	3Q99	4Q99	1Q00	2Q00e
TOTAL	370,353	388,924	407,143	404,642	410,321	412,566	417,598	426,993
% change	5.4	5.0	4.7	0.9	1.4	0.5	1.2	2.2
Banks	222,106	247,847	268,458	266,305	272,000	273,931	288,836	299,998
Trusts	33,679	24,442	22,366	22,540	22,076	21,510	11,489	7,485
Caisse & Co-op	51,687	53,146	54,177	54,002	54,369	54,660	55,314	55,832
Life Ins. Co.	22,071	20,797	18,812	19,098	18,489	18,088	18,401	18,557
Pension Funds	7,997	7,857	7,995	7,798	7,979	8,400	8,637	8,632
Fin. & Loan	31,161	33,343	35,499	34,859	35,820	37,085	37,339	37,407

*Seasonally adjusted data — e: estimate

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

Quarterly residential mortgage credit growt



Sources: CMHC, Bank of Canada — CMHC-MAC 200

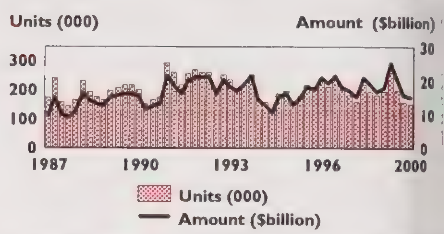
MORTGAGE LOANS APPROVED*

		1998	1999	2Q99	3Q99	4Q99	1Q00
TOTAL	$ millions	71,714	78,745	25,121	20,179	15,556	15,151
	Units	755,263	814,583	260,283	201,450	159,362	153,590
By Type of Lender							
Banks	$ millions	55,126	60,574	19,487	15,553	12,028	11,316
	Units	549,716	599,482	195,145	147,891	117,652	109,160
Trusts	$ millions	5,881	4,725	1,525	1,216	824	916
	Units	66,785	52,470	16,718	13,080	9,116	9,158
Life Ins. Co.	$ millions	1,510	1,049	331	198	152	287
	Units	27,605	19,579	5,175	4,877	3,079	3,940
Others	$ millions	9,197	12,398	3,778	3,212	2,551	2,632
	Units	111,157	143,052	43,245	35,602	29,515	31,332

* Not seasonally adjusted

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

NHA and conventional approvals



Sources: CMHC — CMHC-MAC 2000

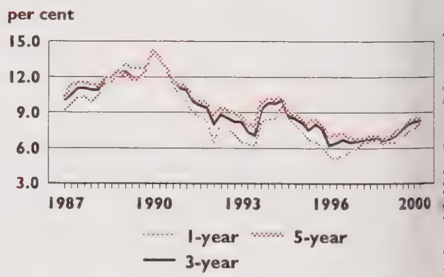
MORTGAGE RATES (%)*

	1997	1998	1999	1Q99	2Q99	3Q99	4Q99	1Q00	2Q00
1-year	5.54	6.50	6.80	6.42	6.45	6.97	7.35	7.63	8.03
3-year	6.56	6.77	7.37	6.77	7.07	7.60	8.05	8.25	8.33
5-year	7.07	6.93	7.56	6.92	7.32	7.75	8.25	8.48	8.52

* Average of period

Sources: Bank of Canada, CMHC — CMHC-MAC 2000

Mortgage rates



Sources: CMHC, Bank of Canada — CMHC-MAC 2000

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, Acting General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305. Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-2642; outside Canada, call 1-613-748-2003. To receive your subscription over the Internet, visit http://www.cmhc-schl.gc.ca/MktInfo/Store $25.00 per issue. Annual subscription (4 issues) $85 + GST – Order No. MMTSE.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – No de commande : MMTSF.

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NHA MORTGAGE-BACKED SECURITIES

NHA MBS ISSUES UP

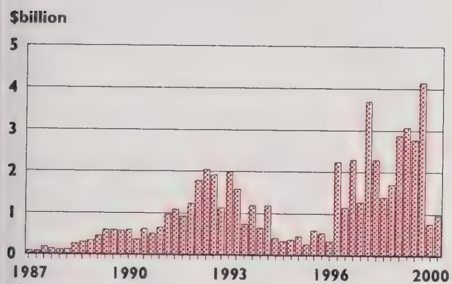
by Ali Manouchehri, Senior Economist - Capital Markets

A combination of factors moderated growth in the NHA MBS market to $967 million in the second quarter of 2000, up 28 per cent from the previous quarter.

Single-family residential pools with indemnity were the bright spot

Single-family indemnity pool 970 remained popular, with $566 million in new issues, up 84.5 per cent from the previous quarter. They accounted for 58 per cent of all new issues between April and June 2000. Issues of multi-family residential and social housing pools were also higher than in the first quarter.

Quarterly NHA MBS issues



Source: CMHC CMHC-MAC 2000

Chartered banks led the issuers

Chartered banks accounted for 80.5 per cent of new NHA MBS issues, followed by trusts, at 12.4 per cent, and life insurance companies, at 7.1 per cent.

NHA MBS outstanding

Modest issues of NHA MBS kept the outstanding volume close to $27.7 billion in the second quarter of 2000, accounting for 6.5 per cent of total residential mortgage credit outstanding in Canada.

Little change in spreads

NHA MBS-Government of Canada bond yield spreads for all pool types changed by one to two basis points in the second quarter of 2000. The average spreads were about 30 basis points for non-prepayable polls and 42 basis points for prepayable pools.

Economic drivers of NHA MBS portray a positive outlook

The demand for and supply of NHA MBS are influenced by a number of factors, including demand for mortgages, profitability of mortgage lending, attractiveness of NHA MBS relative to other securities, availability of liquidity to lenders to fund mortgages, and the extent of utilization of NHA MBS in the past.

Higher demand for mortgages in the primary mortgage market supports larger NHA MBS issues. Similarly, improving profit margins on mortgage lending fuels the supply of NHA MBS by lenders. The increased wealth of investors and portfolio management considerations also contribute to rising demand for NHA MBS. On the other hand, availability of highly liquid assets such as cash and deposits can lead lenders to rely less on NHA MBS to fund mortgages. Market share of mortgage lending by lender type also has some bearing on the desire of lenders to issue NHA MBS.

The medium-term outlook for NHA MBS remains positive given the above-mentioned economic and structural factors and the possible introduction of new products. ■

NHA MBS highlights second quarter 2000

New issues:

√ 26 pools for $966.9 million
√ 13 single family pools amounting to $593.5 million
√ issues of multiple pools up nearly five fold to $83.1 million

MBS-bond yield spreads:

√ on average widened by 1-2 basis points from the last quarter

Outstanding volume:

√ $27.7 billion

NHA MBS POOL TYPE DEFINITIONS

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively of Multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively of Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above mortgage types

DETERMINANTS OF DEMAND FOR MORTGAGE LOANS, AND LONG-TERM FORECAST

by Philippe LeGoff and Louis Trottier, Senior Economists

According to a recent study, the main factors affecting residential mortgage demand are demographic growth, changes in the real income of households, mortgage rates and home prices. The study predicts that the real value of the average loan will double over the next 25 years, to reach about $140,000 by 2026.

Principal factors in the demand for mortgage loans

The vigour of the mortgage market can be gauged by the level of real estate activity. The factors that encourage loan demand are demographic growth, changes in the real income of households, mortgage rates and home prices. The value of mortgage credit outstanding therefore correlates closely with the value of real estate sales.

Results of the study

The study conducted by Fortin and Leclerc* on the basis of time series data (1969 to 1998) estimates two relationships that distinguish the number of new mortgage loans and the value of new mortgage loans. What follows are the principal results for the factors that have a significant impact.

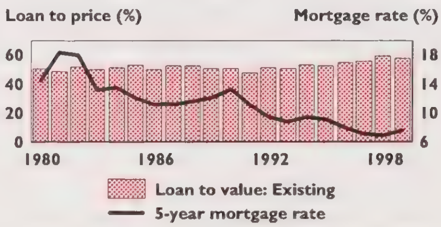
Value of new loans driven by household income

The value of new loans is to a large extent tied to home prices. These, in turn, largely reflect the real income of households.

- √ An increase of one per cent in real home prices brings about a rise of 0.81 per cent in the average value of mortgage loans.
- √ An increase of one per cent in the real income of households drives up home prices by 0.84 per cent.
- √ An increase of one per cent in real income pushes up the value of the average mortgage loan by 0.68 per cent.

The Economic theory teaches that households borrow less when the cost of credit goes up. The researchers point out that when high mortgage rates depress home values, the deterioration of credit conditions brings down the value of new loans. As such, they estimate that an increase of one per cent in the five-year mortgage rate reduces real resale prices by 1.19 per cent and the real value of loans by 0.97 per cent.

Loan to value ratio and 5-year mortgage rate



Sources: CMHC CMHC-MAC 2000

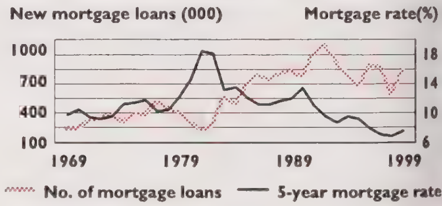
Increased mortgage rates very visibly bring home prices down, as buyer income limitations become more important. Buyers generally opt for more modest properties when credit conditions are less favourable.

Mortgage rates impact number of new loans

The analysis also confirms that the number of new loans is strongly affected by an increase in the nominal mortgage rate. An increase of one percentage point in the nominal interest rate reduces the number of new loans by 15 per cent.

While there is no doubt that the number of loans is sensitive to the nominal interest rate, the significance of the impact seems very high and not representative of the reality on the market. First, the assumption that all else is equal, an assumption essential to the behaviour of statistical models using historical data, does not properly render the net effect of a particular set of conditions. For example, the period from January 1999 to June 2000, marked by an increase in interest rates, also highlighted a rise in the disposable income of households resulting from improved labour market conditions and a lighter tax burden.

No. of new mortgage loans and 5-year mortgage rate



Sources: CMHC, Bank of Canada

CMHC-MAC 2000

This sensitivity of new loans to interest rate levels can also be explained by the fact that an increase of one percentage point in mortgage rates brings about an increase in the monthly payments that is quite high in percentage terms. For instance, for a mortgage of $100,000 amortized over 25 years, a rate increase from 7.0 per cent to 8.0 per cent raises the monthly payments by 9.2 per cent, or $65.

Continued on page 7

Continued from page 6

The other important variable that affects the number of mortgage loans is the rate of growth of the population aged between 25 and 34 years. With a rise of one per cent in the size of this age group, the number of mortgages is estimated to rise by 4.8 per cent.

This factor will be increasingly significant in the demand for mortgage loans, as the Canadian population is aging markedly at the same time as its growth is slowing. This is bound to lead to a decline in the demand for new homes and to have a moderating effect on the number of starts. Just how the aging of the population will affect housing demand is a more complex issue, however, and will depend on how the household consumer profile will change with age, a phenomenon that is now uncertain.

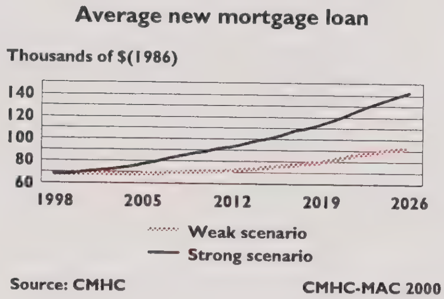
Long-term forecast for the value and number of new mortgage loans

The long-term forecast for the number and value of new loans is based on the three demographic scenarios issued by Statistics Canada and on two assumptions for the annual growth in real income, of 1.0 per cent and 1.65 per cent. The three demographic growth assumptions and the two income growth assumptions result in six scenarios.

Real value of new loans to double

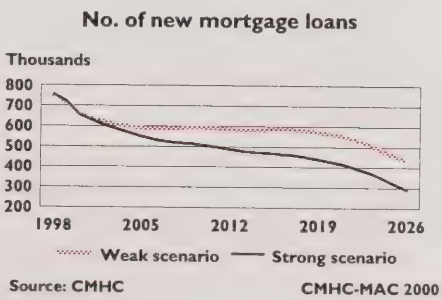
The forecast associated with stronger income growth indicates that the average real value of new mortgage loans will double over the next 25 years. This forecast is not very sensitive to demographic assumptions. The value predicted for 2026 varies only between $136,000 and $141,800, compared with $68,343 in 1999.

The forecast associated with weaker income growth points to a much less pronounced progression in the average value of new loans. This value would hover between $92,400 and $96,400 in 2026. For the overall forecast period, the mortgage rate was set at 7.5 per cent.



Demographics influence number of new loans

While the number of new loans is sensitive to growth in the population aged from 25 to 34 years it does not react to real income. The six reference scenarios therefore provide only three forecast paths for the number of new loans. The scenarios suggest an initially rapid reduction in the number of loans. The renewed demographic growth among young households as of 2004 will allow for a shift in this downward trend. The model indicates between 500,000 and 600,000 new loans in 2010, a level comparable to that of the early 1980s.



The decrease will intensify again starting in 2020, with a decline in the young population. There would therefore be only about 300,000 new loans in 2026, according to the most conservative demographic growth scenario. However, as Fortin and Leclerc rightfully mention, this number is very sensitive to interest rate fluctuations in the short term. ■

* Fortin and Leclerc, Determinants of long-term demand for mortgage loans, CMHC, 2000. This study will be available through Canadian Housing Information Centre later this year.

Continued from page 1

The share of the mortgage market held by independent trusts continues to slip, dropping to 1.8 per cent in the second quarter of 2000 from 10.4 percent two years earlier. This sharp decline is explained by the fact that Canadian banks have acquired major trust companies in recent years.

Life insurance companies are also losing market share, but at a slower pace than the trusts. Their share of the mortgage loan market shrank from 6.1 per cent in the second quarter of 1997 to 4.3 per cent in the second quarter of 2000. The share of the market held by credit unions and savings co-operatives has slipped from 14.2 per cent to 13.1 per cent in three years, since the second quarter of 1997. Loan corporations and pension funds have more-or-less kept a constant share of the market during that time. ■

PROVINCIAL MORTGAGE MARKETS CONT'D

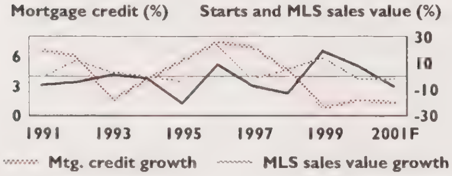
Continued from page 3

Quebec's mortgage market is set to grow in 2000-2001, with mortgage credit expanding by 2.0 per cent this year and 3.0 per cent in 2001.

Atlantic region losing some steam

In 1999, mortgage markets in the Atlantic region experienced their slowest growth of the decade. Slower housing markets in Nova Scotia and New Brunswick in 2000-2001will keep mortgage credit growth below 2.0 per cent this year and next. ■

Weaker housing markets limit mortgage credit growth in the Maritimes



Sources: CMHC, Statistics Canada, Bank of Canada
CMHC-MAC 2000

MORTGAGE RATES OUTLOOK

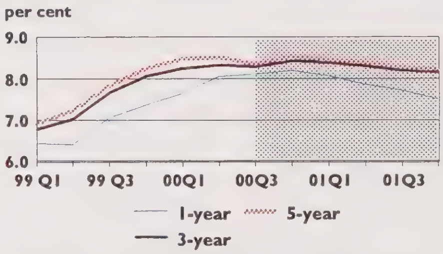
by Ali Manouchehri, Senior Economist - Capital Markets

Mortgage rates have trended upward since early 1999. However, growing evidence of an economic slowdown in Canada and the U.S. point to lower rates by next year.

Mortgage rates will remain susceptible to upward pressure this fall, sparked by robust economic growth at home and globally as well as potentially higher interest rates in Europe and the United States.

Mortgage rates will ease after the emergence of convincing evidence of slower economic growth, softening in the labour market and consumer spending, and weaker price increases in Canada and south of the border.

Mortgage rates close to a peak



Sources: CMHC, Bank of Canada CMHC-MAC 2000
* 2000-2001 are CMHC forecast

Despite the continued strength of petroleum prices, moderate consumer and industrial price increases will help keep our interest and mortgage rates low in 2000-2001. Mid- to long-term bond and mortgage rates could cap out in the U.S. and Canada over the next few months if long-term bond yields continue to remain below short-term interest rates as a result of a combination of easing inflationary expectations and a rising budgetary surplus.

The outlook for mortgage rates remains positive, with one-, three- and five-year mortgage rates in the 7.50-8.25, 7.75-8.50, and 8.00-8.75 per cent range respectively. Mortgage rate discounts of 0.25 to 1.25 percentage points will remain an important competitive instrument over the forecast horizon.

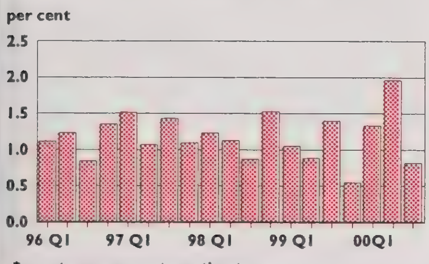
There are risks to the forecast. Mortgage rates could move even higher than our base scenario if U.S. rates rise much further or if the Canadian dollar faces severe downward pressure. On the other hand, a sharp slowdown in the labour market and consumer spending in the U.S. and Canada could lead to lower mortgage rates sooner than anticipated. ■

CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Fourth Quarter, 2000

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada CMHC-MAC 2000

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%)

	3Q99	4Q99	1Q00	2Q00	3Q00e
Banks	66.3	66.4	69.1	70.7	71.3
Trusts	5.4	5.2	2.8	2.0	2.0
Caisse & Co-op	13.3	13.2	13.2	13.1	13.1
Life Ins. Co.	4.5	4.4	4.4	4.3	4.2
Pension Funds	1.9	2.0	2.1	2.0	2.0
Others *	8.6	8.7	8.4	8.0	7.8

e: estimate * Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC CMHC-MAC 2000

In this Issue:

MORTGAGE LENDING

MORTGAGE CREDIT EDGES UP THANKS TO MORE ACTIVE HOUSING MARKETS

by Ali Manouchehri, Senior Economist - Capital Markets

Rising income and housing starts, and a fall in mortgage rates early in the third quarter of 2000, helped residential mortgage credit grow 0.8 per cent over the previous quarter. Residential mortgage debt reached $429.8 billion by the autumn, accounting for 70 per cent of household debt.

Lower mortgage rates, a rebound in the labour market, rising incomes, and continued economic growth helped the housing market remain vibrant in the third quarter. Broadly based active housing markets in late summer and early fall led residential mortgage credit outstanding to grow by 0.8 per cent during the quarter. This raised the residential mortgage debt to a level that was 4.7 per cent higher than at the same time a year earlier.

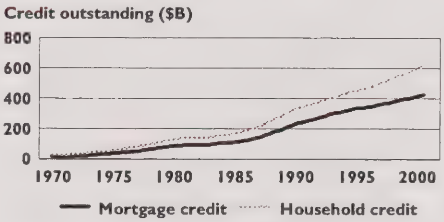
Strong growth in home building lends a helping hand

Active residential real estate markets were led by a 10.2 per cent increase in housing starts, while the value of MLS[1] sales edged up by 2.4 per cent during the quarter. Almost 225,000 new residential mortgage loans, totalling $21.4 billion, were approved in the second quarter of 2000.

Chartered banks gaining ground

The substantial size of the mortgage market and the critical role

Residential mortgages account for 70 per cent of household debt



Sources: CMHC, Bank of Canada CMHC-MAC 2000

played by mortgages in household debt have established residential mortgages as a key product for

Continued on page 3

CMHC SCHL

HOME TO CANADIANS

Canada

ONTARIO AND ALBERTA AMONG THE HOT SPOTS

by Philippe LeGoff, Senior Economist

The housing market in Canada is likely to witness another strong performance in 2001, with gains in starts, resales an prices. However, the outlook in local markets vary, and the mortgage lending approach followed by lenders will depen on local conditions.

Continued growth in 2001

CMHC forecasts housing starts to reach 160,900 units in 2001, 3.9 per cent more than the level anticipated for 2000. Resales will increase as well next year, by 3.6 per cent, after a slight downturn in 2000. CMHC expects existing home prices to rise at around 3.5 per cent in both 2000 and 2001.

The regions to watch for next year will be Ontario, Alberta and, to a lesser extent, British Columbia, which will again pick up after a few difficult years.

Local conditions and mortgage credit

While national and provincial mortgage lending practices are important, they may conceal localized activity and, consequently, mortgage credit growth potential.

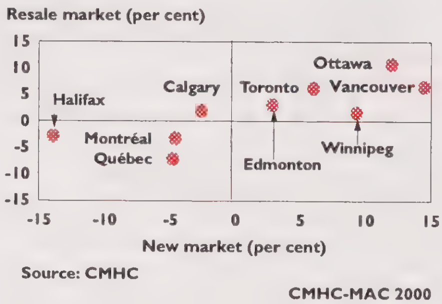
Certain business strategies turn out to be more effective when they are adapted to local conditions and adequately targeted to growth niches. With this in mind, we divided metropolitan areas into three groups by size, then analyzed them in terms of the mortgage credit growth potential associated with new and existing home markets.

Growth prevails in most areas

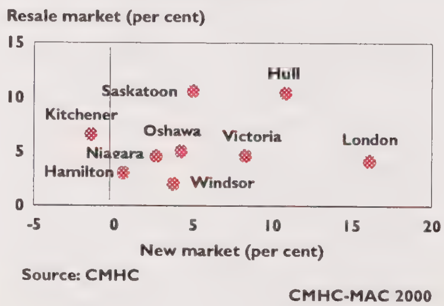
Among the large metropolitan areas, Ottawa, Vancouver and Toronto stand out, with major growth forecasts for new and existing home markets. In addition, since they are among the most expensive markets in the country, the potential in these cities is all the more interesting. Activity is expected to slow in Montréal and Calgary in 2001, but these markets are worth mentioning nevertheless, as their decline is relative to the peak in activity in 1999 and 2000.

Except in Kitchener-Waterloo, growth will be moderate in medium-sized markets.

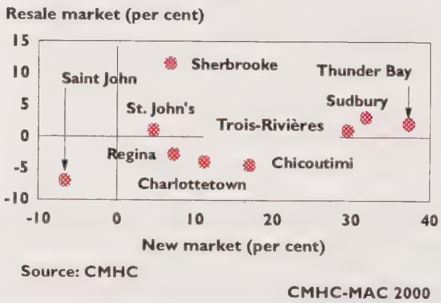
Housing market growth in large CMAs in 2001



Housing market growth in medium size CMAs in 2001



Housing market growth in small CMAs in 2001



Smaller metropolitan areas are characterized by highly volatile starts and sales volumes from one year to the next, and variations must be interpreted with caution.

Where is mortgage credit demand headed?

In general, the urban centres with the highest growth rates are those that offer the greatest mortgage credi growth potential, notwithstanding the possibility of accelerated prepayments that might modify the picture.

Some distortions could also appea from one market to another depending on the level of the loan-to-selling price ratio. In general, a market dominated by first-time buyers generates a higher mortgage credit volume. Likewise, markets where the median price is higher and the number of sales is greater tend to be more attractive to mortgage lenders.

Anticipating buyers' needs

Residential construction injects new blood into the mortgage credit market. The sector is also tailor-made for a targeted marketing approach since approved residential projects show in advance where the demand will come from.

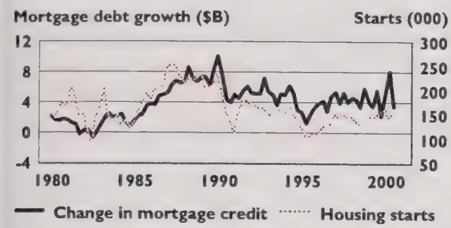
Some surveys have shown that mortgage financing packages offered by lenders through builders are gaining in popularity and efficiency every year. By offering more favourable conditions, builders can

Continued on page 3

MORTGAGE LENDING CONT'D

Continued from page 1

Rising starts help mortgage credit expand



Sources: CMHC, Bank of Canada CMHC-MAC 2000

lenders and led to intense competition within the market. Recent trends in market share by institution type continue to favour chartered banks. According to the latest data, chartered banks for approximately 74.2 per cent of mortgage initiation and 71.3 per cent of the mortgage loans outstanding. ■

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[1]Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

MORTGAGE RATES OUTLOOK

by Ali Manouchehri, Senior Economist - Capital Markets

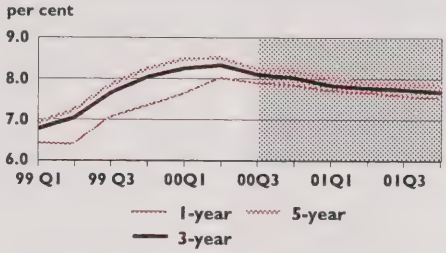
Growing evidence of an economic slowdown in the U.S. point to lower interest rates south of the border and in Canada next year.

A vibrant economy and a pick-up in employment growth in the fall-winter 2000 will keep the Canadian interest and mortgage rates near current levels in early 2001. Slower economic growth, softer labour market and consumer spending in the U.S. combined with moderate price increases point to easing interest rates south of the border and in Canada later in 2001.

Despite continued strength of energy prices, moderate consumer and industrial price increases due to productivity growth, will help keep our interest and mortgage rates low in 2001.

The mortgage rates outlook remains positive with the one, three and five-year mortgage rates in the 7.25-8.25, 7.50-8.50, and 7.75-8.75 per cent range respectively.

Mortgage rates will trend lower



Sources: CMHC, Bank of Canada CMHC-MAC 2000
* 2001 data are CMHC forecast

Mortgage rate discounts of 0.25 to 1.25 percentage point will remain an important competitive instrument over the forecast horizon.

A combination of easing inflationary expectation and rising budgetary surplus could lead to a situation where long-term bond yields continue to remain below short-term interest rates, leading to shrinking spreads between long and short-term mortgage rates.

There are risks to the forecast. Mortgage rates could move higher than our base scenario if the Canadian dollar faces severe downward pressure or the economic growth in Canada remains in high gear. On the other hand, a sharp decline in oil prices or slow down in the labour market and consumer spending in the U.S. and Canada could lead to lower mortgage rates sooner than anticipated. ■

MORTGAGE CREDIT: HOT MARKETS IN 2001 CONT'D

Continued from page 2

often close a sale with a buyer who otherwise might not qualify. This front-line access can help lenders find new clients effectively at low cost.

Although not common in the resale market, this approach could offer lenders a competitive edge. ■

Methodology

In the new home market, our measurement of the potential mortgage credit growth is calculated by multiplying the annual change in total housing starts by the change in Statistics Canada's New Housing Price Index (NHPI). While it may not take into account the change in total housing starts by type (singles, apartments, etc.), this price index has the advantage of being available for almost all metropolitan areas.

Potential mortgage credit growth in the existing home market is measured by multiplying changes in MLS sales by changes in the MLS price.

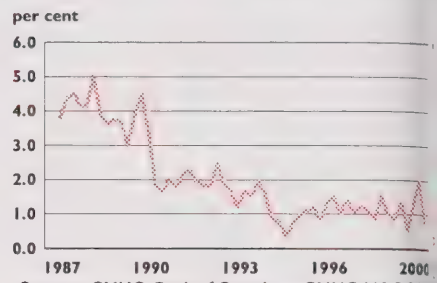
INDICATORS OF MORTGAGE LENDING ACTIVITY

MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1997	1998	1999	3Q99	4Q99	1Q00	2Q00	3Q00e
TOTAL	371,945	389,711	407,169	410,331	412,579	418,103	426,306	429,786
% change	5.1	4.8	4.5	1.4	0.5	1.3	2.0	0.8
Banks	222,106	247,847	268,458	272,000	273,931	289,018	301,195	306,444
Trusts	33,679	24,442	22,366	22,076	21,510	11,852	8,405	8,412
Caisse & Co-op	51,687	53,146	54,177	54,369	54,660	55,362	55,819	56,126
Life Ins. Co.	22,071	20,797	18,812	18,489	18,088	18,274	18,323	17,960
Pension Funds	7,997	7,857	7,995	7,979	8,400	8,650	8,658	8,792
Others **	34,406	35,623	35,360	35,417	35,990	34,947	33,906	33,584

*Seasonally adjusted data ** Includes non-depository credit intermediaries e: estimate
Sources: Bank of Canada, CMHC CMHC-MAC 2000

Quarterly residential mortgage credit growt



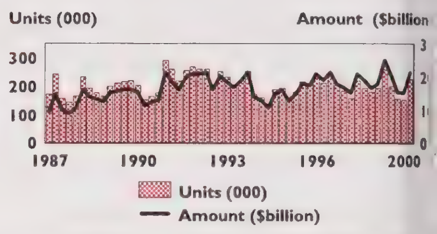
Sources: CMHC, Bank of Canada CMHC-MAC 200

MORTGAGE LOANS APPROVED*

		1998	1999	3Q99	4Q99	1Q00	2Q00
TOTAL	$ millions	71,714	78,745	20,179	15,556	15,151	21,403
	Units	755,263	814,583	201,450	159,362	153,590	224,105
By Type of Lender							
Banks	$ millions	55,126	60,574	15,553	12,028	11,316	15,874
	Units	549,716	599,482	147,891	117,652	109,160	164,980
Trusts	$ millions	5,881	4,725	1,216	824	916	1,356
	Units	66,785	52,470	13,080	9,116	9,158	12,531
Life Ins. Co.	$ millions	1,510	1,049	198	152	287	390
	Units	27,605	19,579	4,877	3,079	3,940	7,298
Others	$ millions	9,197	12,398	3,212	2,551	2,632	3,783
	Units	111,157	143,052	35,602	29,515	31,332	39,296

* Not seasonally adjusted
Sources: Bank of Canada, CMHC CMHC-MAC 2000

Mortgage loans approved



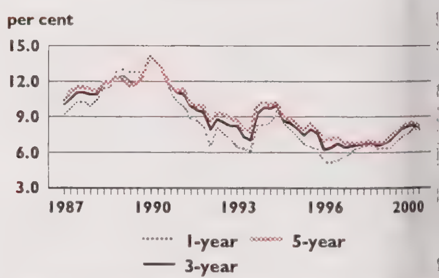
Sources: CMHC CMHC-MAC 2000

MORTGAGE RATES (%)*

	1997	1998	1999	2Q99	3Q99	4Q99	1Q00	2Q00	3Q00
1-year	5.54	6.50	6.80	6.45	6.97	7.35	7.63	8.03	7.90
3-year	6.56	6.77	7.37	7.07	7.60	8.05	8.25	8.33	8.10
5-year	7.07	6.93	7.56	7.32	7.75	8.25	8.48	8.52	8.25

* Average of period
Sources: Bank of Canada, CMHC CMHC-MAC 2000

Mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 2000

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, Acting General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305. Mortgage Market Trends is a quarterly publication. To order, in Canada call 1-800-668-2642; outside Canada, call 1-613-748-2003. To receive your subscription over the Internet, visit http://www.cmhc-schl.gc.ca/MktInfo/Store $25.00 per issue. Annual subscription (4 issues) $85 + GST – Order No. MMTSE.

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NHA MORTGAGE-BACKED SECURITIES

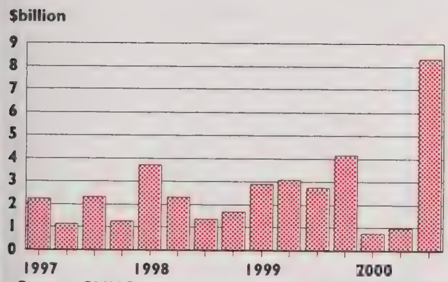
A QUARTERLY RECORD NHA MBS ISSUE

by Ali Manouchehri, Senior Economist - Capital Markets

NHA MBS set an all-time quarterly record last quarter, with $8.3 billion in new issues, as the rising tide of residential mortgage securitization forged ahead.

Record volumes of new NHA MBS were issued in the third quarter of 2000 following slower volumes in the first half of the year. Over $8.3 billion of new NHA MBS were issued last quarter, a sevenfold increase over the previous quarter and more than triple the volume issued in the third quarter of last year.

Quarterly NHA MBS issues



Source: CMHC CMHC-MAC 2000

A number of factors contributed to the growth of NHA MBS in the third quarter: portfolio management considerations by several lenders; use of NHA MBS as LVTS collateral; lenders' efforts to diversify mortgage funding sources; an inverted yield curve which encouraged longer term mortgages; growing demand for mortgages in the primary mortgage market; wide spreads between mortgage rates and comparable Government of Canada bonds; and shrinkage of the government debt supply. Many of these factors will continue to foster further utilization of NHA MBS in the future.

Single-family indemnity pools drive volume growth

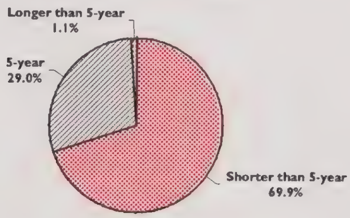
Single-family mortgage pool types led the way last quarter, with the issue of 36 new pools amounting to $8.0 billion. With its par compression protection nature, single-family indemnity pool 970 remained particularly popular, accounting for nearly 95 per cent of the amount issued in the third quarter.

While mixed pool issues increased by 85 per cent to reach $38 million, the issue of social housing pools eased by 10.4 per cent in the third quarter.

Use of seasoned mortgages help raise short-term issues

Nearly 70 per cent of the pools issued last quarter were for less than five years, while the five-year term accounted for 29 per cent of the pools issued. This was partly due to use of seasoned five-year mortgages in the pools.

NHA MBS Issues by term
Third quarter 2000



Source: CMHC CMHC-MAC 2000

NHA MBS outstanding

Record issues helped raise outstanding volume by $6.7 billion in the third quarter, to $34.3 billion. NHA MBS accounted for 8.0 per cent of total residential mortgage credit outstanding in Canada, up from 6.0 per cent in the third quarter a year ago. This trend points to the rising significance of securitization in the Canadian housing finance system.

NHA MBS highlights
Third quarter 2000

New issues:

√ 48 pools for $8.3 billion, up seven fold from the previous quarter
√ 36 single family pools amounting to $8.0 billion
√ issues of social housing pools down by 10.4 per cent to $242 million

MBS-bond yield spreads:

√ on changed by 3 basis points for 5-year terms

Outstanding volume:

√ some $34.3 billion outstanding, up from $27.6 billion in the previous quarter

Little change in spreads

Spreads between NHA MBS and Government of Canada bond yields changed marginally in response to interest in various pool types, showing movement of about 3 basis points over the last quarter. ■

NHA MORTGAGE-BACKED SECURITIES

JULY TO SEPTEMBER 2000 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: September 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-604	Alberta Motor Assoc.Insur.Comp	3,597,893.68	6.20	2010-09-01	8.73	21.57
NHA-Insured Market Residential Pools (Mixed)						
96-501-382	Equitable Trust Company (The)	14,203,027.75	6.20	2005-09-01	7.07	23.76
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-505	Toronto-Dominion Bank	3,828,800.00	5.88	2010-09-01	6.82	25.00
96-601-513	Peoples Trust Company	15,888,913.72	5.63	2005-08-01	7.06	22.01
96-601-521	Peoples Trust Company	32,818,546.40	6.25	2010-09-01	7.04	23.93
NHA-Insured Market Residential Pools (NO PIP WITH INDEMNITY)						
97-002-349	Canada Trustco Mortgage Co.	202,255,626.09	5.00	2005-06-01	6.95	20.95
97-002-356	Canada Trustco Mortgage Co.	433,592,690.96	5.00	2004-10-01	6.17	19.96
97-002-364	Canada Trustco Mortgage Co.	279,137,404.95	5.00	2004-12-01	6.64	20.62
97-002-372	Canada Trustco Mortgage Co.	187,049,212.53	5.00	2004-04-01	6.04	19.49
97-002-380	M.R.S. Trust Company	7,506,698.88	6.25	2005-09-01	7.62	22.79
97-002-398	National Bank of Canada	174,332,723.39	6.00	2005-06-01	7.55	22.30
97-002-406	La Capitale MFQ Insurance Inc.	22,966,994.99	6.00	2005-09-01	7.40	21.99
97-002-414	Bank of Montreal	367,670,286.99	5.50	2005-09-01	7.54	22.51
97-002-422	Bank of Montreal	131,586,320.72	5.25	2003-09-01	7.45	21.84
Social Housing Pools						
99-008-294	Toronto-Dominion Bank	96,886,400.42	5.75	2005-09-01	6.43	28.43

*PIP stands for Penalty Interest Payments

Source: CMHC

CMHC - MAC 2000

Definition of NHA MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

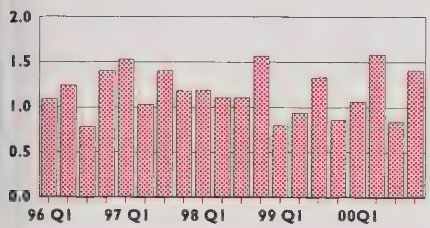
965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

First Quarter, 2001

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada CMHC-MAC 2001

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%)

	4Q99	1Q00	2Q00	3Q00	4Q00e
Banks	66.5	69.2	70.6	70.8	71.0
Trusts	5.2	2.8	1.9	1.8	1.7
Caisse & Co-op	13.2	13.2	13.1	13.2	13.1
Life Ins. Co.	4.4	4.4	4.3	4.2	4.2
Pension Funds	2.0	2.1	2.1	2.2	2.3
Others *	8.7	8.3	8.0	7.8	7.7

e: estimate * Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC CMHC-MAC 2001

In this Issue:

MORTGAGE LENDING

VIBRANT HOUSING MARKETS SUPPORT RESIDENTIAL MORTGAGE CREDIT

by Ali Manouchehri, Senior Economist - Capital Markets

Residential mortgage credit grew by 1.4 per cent in the final quarter of 2000 to reach $434 billion as housing markets remained healthy and mortgage rates fell. As a result, residential mortgage debt expanded by 4.6 per cent in 2000. Mortgage debt is forecast to growth by 3 to 5 per cent a year in 2001-2002.

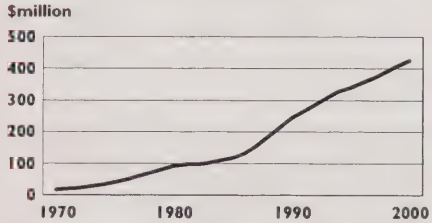
A combination of economic growth, rising disposable income, and low mortgage rates laid the foundation for strong housing markets and healthy growth in the mortgage market last year.

New House Prices Index rose 2.2 per and housing starts were up 1.1 per cent in 2000 while the value of homes sold through MLS [1] increased by 3.2 per cent last year. The strength in housing markets led to an increase of 1.4 per cent in mortgage credit outstanding in the closing quarter of 2000 over the previous quarter.

This raised residential mortgage debt by 4.6 per cent in 2000, in line with the historical experience since mid-1990s, yet well below the double digit annual growth rate of the 1980s. Mortgage debt now accounts for 70 per cent of household debt, a smaller percentage than in the early to mid-1990s.

Continued on page 3

Residential mortgage credit growing steadily



Sources: CMHC, Bank of Canada CMHC-MAC 2001

CMHC SCHL

HOME TO CANADIANS

Canada

NEARLY 134,000 INDIVIDUALS TOOK ADVANTAGE OF THE HOME BUYERS' PLAN TO PURCHASE HOMES IN 2000

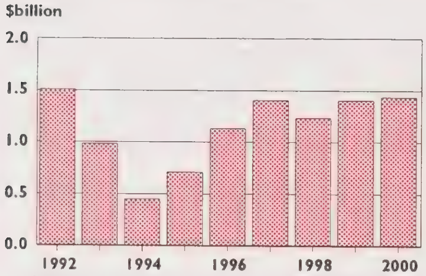
by Ali Manouchehri, Senior Economist - Capital Markets

The federal government's Home Buyers' Plan helped nearly 134,000 individuals to realize their homeownership dream last year by enabling them to withdraw more than $1.4 billion in RRSP funds to purchase homes. Since its inception in 1992, more than one million individuals have participated in the program channeling $10.4 billion to the housing market.

What is the Home Buyers' Plan (HBP)?

The Home Buyers' Plan (HBP) was introduced by the federal government in 1992 to help individuals purchase homes. It allows Canadians, who meet certain eligibility conditions, to withdraw up to $20,000 tax-free from their RRSPs for this purpose. The amounts withdrawn remain tax-exempt if they are repaid within 15 years. The program enhancements in 1999 allow for wider accessibility of the program for disabled individuals or those caring for them.

RRSP funds used to purchase homes under Home Buyers' Plan



Sources: CMHC, CCRA CMHC-MAC 2001

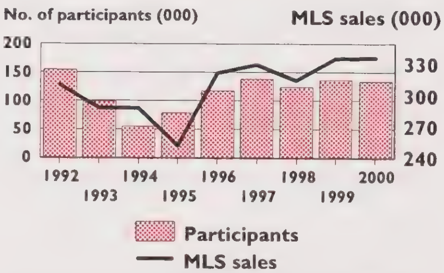
HBP opens another avenue to first-time homebuyers

A recent survey shows[2] that 18 per cent of first-time buyers use RRSPs as the primary source of downpayment. First-time buyers requiring mortgage insurance rely even more heavily on RRSP funds as the primary source of downpayment.

HBP contributes to the residential real estate market

The HBP continues to play a role in the residential real estate market, particularly for first-time buyers. The average withdrawal under HBP was $10,719 in 2000, in line with amounts withdrawn in the previous years. The average withdrawal under HBP amounted to 6.5 per cent of the price of an average house across the country in 2000, ranging from a low of 4.8 per cent in British Columbia to a high of 10.7 per cent in Quebec.

Home Buyers' Plan and MLS sales



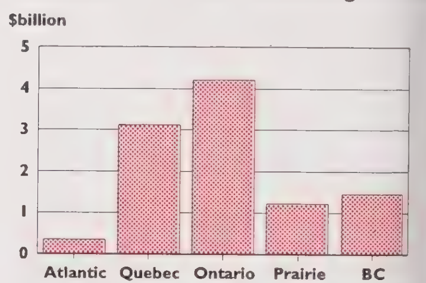
Sources: CMHC, CCRA, CREA CMHC-MAC 2001

The ratio of HBP participants to MLS sales at 40 per cent last year, suggests that up to one out of three home buyers through MLS could have used RRSP funds to buy their homes. Withdrawals under HBP accounted for 2.6 per cent of the value of homes sold through MLS last year. In Quebec, as many as 73 per cent of those purchasing homes through the real estate board utilized the HBP, while only one in four did so in British Columbia.

Ontario and Quebec residents account for the bulk of subscribers to HBP

Participation in the program has varied from province to province and over time. Ontario home buyers accounted for over 44 per cent of both participants and amounts withdrawn in 2000. Quebec accounted for 29 per cent of participants and 32 per cent of the amounts withdrawn, followed by British Columbia at about 9 per cent of both participants and funds withdrawn.

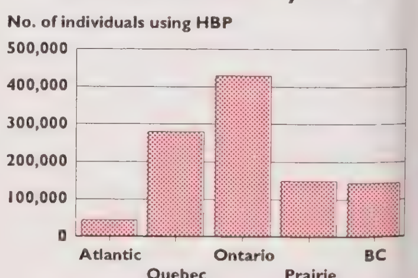
Since 1992 Home Buyers' Plan has channeled $10.4 billion to housing market



Sources: CMHC, CCRA CMHC-MAC 2001

Average withdrawals ranged from a low of $7,544 in Manitoba to a high of $11,870 in Quebec, reflecting the diversity of housing markets, purchasing preferences of home

Home Buyers' Plan has helped over one million individuals buy homes

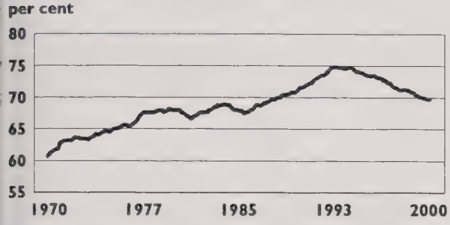


Sources: CMHC, CCRA CMHC-MAC 2001

Continued on page 3

Continued from page 1

Residential mortgages accounted for a smaller proportion of household debt last year than they did in 1994

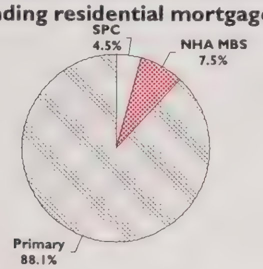


Sources: CMHC, Bank of Canada CMHC-MAC 2001

Primary and secondary mortgage markets marching on

The Canadian housing finance system continues to evolve with the secondary mortgage market assuming a more prominent role in the funding of mortgages in recent years. The pace of expansion in the secondary market was faster than in the primary market in 2000, with mortgage credit outstanding in the secondary market growing by 5.6 per cent between December 1999 and December 2000 compared to 4.5 per cent in the primary market. National Housing Act Mortgage-Backed Securities (NHA MBS) and Special Purpose Corporations (SPCs) represented 7.5 and 4.5 per cent of overall residential mortgage credit respectively by December 2000.

Securitization plays a major role in funding residential mortgages



Sources: CMHC, Bank of Canada CMHC-MAC 2001

Stable mortgage market structure

Recent trends in market share by institution type continued, with chartered banks accounting for approximately 75 per cent of mortgage initiation in the first nine months of 2000 and 71 per cent of the mortgage loans outstanding by the final quarter of last year. Credit unions retained their second place position, accounting for 13 per cent of residential mortgage loans outstanding.

Mortgage credit will grow by 3 to 5 per cent in 2001-2002

Despite slower economic growth and a smaller home-buying age population, low mortgage rates will sustain demand for homeownership in both new and resale housing markets and support house price increases in 2001-2002. Mortgage credit is expected to grow by 3 to 5 per cent in 2001-2002 and average $473 billion in 2002. ■

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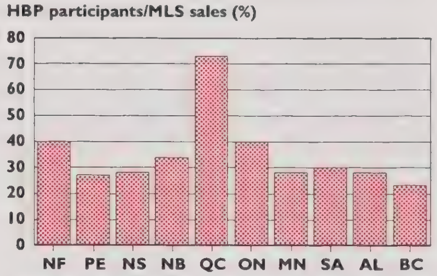
[1]**Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association**

Continued from page 2

buyers, and financial institutions in the provinces.

Home Buyers' Plan plays an important role in provincial housing markets



Sources: CMHC, CCRA, CREA CMHC-MAC 2001

Participants typically withdrew funds from more than one RRSP account to buy a home. The average number of withdrawals per participant has been hovering around 1.3 annually since the inception of the program.

Wide access to the program and a positive housing climate will continue to encourage many individuals to take advantage of HBP in 2001. ■

Provincial participation in HBP in 2000

Province / Territory	No. of participants	Total withdrawal ($)	Average withdrawal ($)
NF	1,030	8,575,796	8,326
PE	330	2,628,758	7,966
NS	2,324	20,609,605	8,868
NB	1,524	12,230,614	8,025
QC	39,030	463,303,364	11,870
ON	59,377	639,704,797	10,774
MN	3,086	23,281,993	7,544
SA	2,303	18,793,930	8,161
AL	12,205	110,034,199	9,016
BC	12,541	134,575,434	10,731
NWT	110	1,194,135	10,856
YK & NU	121	1,211,201	10,010
National	133,981	1,436,143,826	10,719

Source: Canada Customs and Revenue Agency, 2000 data is preliminary

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[2]**Financial Industry Research Monitor (FIRM) survey, September 2000**

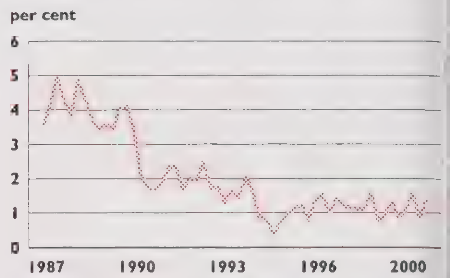
INDICATORS OF MORTGAGE LENDING ACTIVITY

MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1998	1999	2000	4Q99	1Q00	2Q00	3Q00	4Q00e
TOTAL	390,183	407,566	426,506	413,851	418,252	424,868	428,424	434,478
% change	4.9	4.5	4.6	0.9	1.1	1.6	0.8	1.4
Banks	248,322	268,862	300,248	275,129	289,296	299,920	303,485	308,290
Trusts	24,441	22,363	8,721	21,558	11,850	8,033	7,524	7,477
Caisse & Co-op	53,145	54,176	56,188	54,656	55,316	55,866	56,460	57,109
Life Ins. Co.	20,795	18,811	18,172	18,117	18,218	18,230	18,136	18,105
Pension Funds	7,857	7,995	9,185	8,400	8,650	8,897	9,349	9,842
Others **	35,623	35,360	33,992	35,990	34,922	33,921	33,470	33,655

*Seasonally adjusted data
** Includes non-depository credit intermediaries
e: estimate
Sources: Bank of Canada, CMHC
CMHC-MAC 2001

Quarterly residential mortgage credit growth



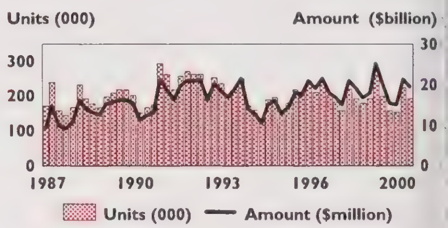
Sources: CMHC, Bank of Canada CMHC-MAC 2001

MORTGAGE LOANS APPROVED*

		1998	1999	3Q99	4Q99	1Q00	2Q00	3Q00
TOTAL	$ millions	71,714	78,745	20,179	15,556	15,151	21,403	19,452
	Units	755,263	814,583	201,450	159,362	153,590	224,105	193,458
By Type of Lender								
Banks	$ millions	55,126	60,574	15,553	12,028	11,316	15,874	14,817
	Units	549,716	599,482	147,891	117,652	109,160	164,980	142,564
Trusts	$ millions	5,881	4,725	1,216	824	916	1,356	1,164
	Units	66,785	52,470	13,080	9,116	9,158	12,531	11,306
Life Ins. Co.	$ millions	1,510	1,049	198	152	287	390	336
	Units	27,605	19,579	4,877	3,079	3,940	7,298	5,675
Others	$ millions	9,197	12,398	3,212	2,551	2,632	3,783	3,135
	Units	111,157	143,052	35,602	29,515	31,332	39,296	33,913

* Not seasonally adjusted
Sources: Bank of Canada, CMHC
CMHC-MAC 2001

Mortgage loans approved



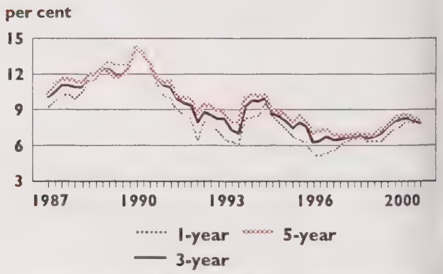
Sources: CMHC CMHC-MAC 2001

MORTGAGE RATES (%)*

	1998	1999	2000	3Q99	4Q99	1Q00	2Q00	3Q00	4Q00
1-year	6.50	6.80	7.85	6.97	7.35	7.63	8.03	7.90	7.83
3-year	6.77	7.37	8.17	7.60	8.05	8.25	8.33	8.10	8.00
5-year	6.93	7.56	8.35	7.75	8.25	8.48	8.52	8.25	8.15

* Average of period
Sources: Bank of Canada, CMHC
CMHC-MAC 2001

Mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 2001

A SOLID PERFORMANCE BY NHA MBS IN 2000

by Ali Manouchehri, Senior Economist - Capital Markets

At $11.0 billion, NHA MBS issues last year reached the second highest level ever as the secondary mortgage market continued to gain momentum.

CMHC's initiatives to introduce new pool types to accommodate a wider array of products, improve the issuing process, and reduce issuing costs have contributed to the phenomenal growth of NHA MBS since 1997. The acceptance of NHA MBS as collateral by the Bank of Canada and the Canadian Payment System also contributed to this growth.

A flatter yield curve reduced the lock-in premium for longer-term mortgages, encouraging more borrowers to opt for such mortgages. This increased the average mortgage term and enhanced reliance on MBS.

Portfolio management considerations by several financial institutions also played a major role in fostering a favourable environment for MBS to grow last year.

Single-family indemnity pools drive volumes

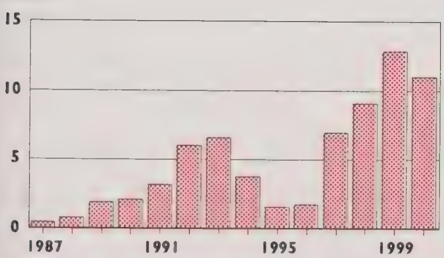
Single-family mortgage pool types led the way in 2000 with the issue of 73 new pools amounting to $9.8 billion. Single-family indemnity pools 970 continued to remain particularly popular, accounting for 87.7 per cent of the total amount issued last year.

On the other hand, issues of multiple, social housing, and mixed pools at $1.2 billion in 2000 were 42.7 per cent lower than in the previous year.

NHA MBS outstanding

Large issues of NHA MBS last year helped raise the outstanding volume by $6.2 billion to $33.9 billion in December 2000. NHA MBS accounted for 7.5 per cent of total residential mortgage credit outstanding in Canada in December 2000, up from 6.6 per cent a year earlier. ■

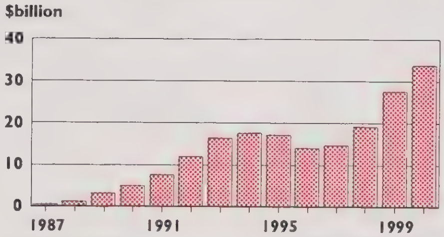
NHA MBS issues



Source: CMHC CMHC-MAC 2001

NHA MBS outstanding

end of the period



Source: CMHC CMHC-MAC 2001

NHA MBS highlights - 2000

New issues:

- √ 165 pools amounting to $11.0 billion
- √ pool type 970 accounted for 88 per cent of all issues
- √ 73 single family-pools amounting to $9.8 billion
- √ issues of social housing pools were down by 34 per cent to $0.8 billion

MBS-bond yield spreads:

- √ at 30-40 basis points for 5-year terms, spreads remained within 5 basis points of their levels in 1999

Outstanding volume:

- √ some $33.9 billion outstanding, up from $27.7 billion in 1999

Other developments:

- √ CMHC introduced a new "975" NHA MBS pool type to accommodate mortgages with conventional prepayment clauses
- √ Launch of Canada Mortgage Bonds featuring semi-annual interest payments, repayment of principal at maturity, and a CMHC guarantee of timely payment of interest and principal

NHA MORTGAGE-BACKED SECURITIES

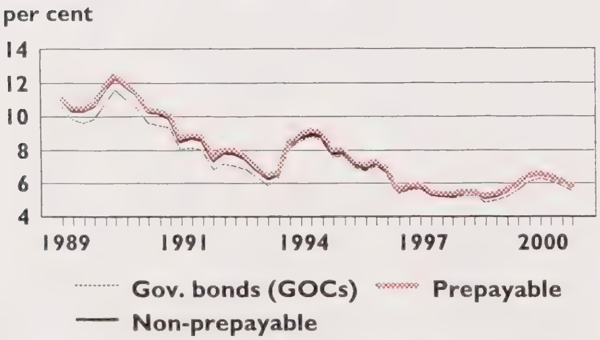
(Average of period except when indicated)

		1999	2000	4Q99	1Q00	2Q00	3Q00	4Q00
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	27,691	33,924	27,691	27,709	27,610	34,305	33,924
	Units	1,072	1,005	1,072	1,052	1,043	1,036	1,005
Residential, single (with PIP)	$million	2,208	1,976	2,208	2,171	2,097	2,013	1,976
	Units	323	254	323	301	285	266	254
Residential, single (no PIP)	$million	1,169	918	1,169	1,142	1,071	990	918
	Units	201	175	201	199	193	184	175
Residential, single (no PIP with indemnity)	$million	17,721	24,325	17,721	17,701	17,621	24,505	24,325
	Units	188	236	188	193	204	232	236
Residential, multiple	$million	1,579	1,467	1,579	1,565	1,563	1,482	1,467
	Units	109	110	109	111	115	114	110
Social Housing	$million	3,693	3,809	3,693	3,782	3,902	3,933	3,809
	Units	150	122	150	146	141	134	122
Mixed	$million	1,321	1,430	1,321	1,348	1,356	1,383	1,430
	Units	101	108	101	102	105	106	108
ISSUES (Total of period)								
TOTAL	$million	12,854	11,014	4,144	755	967	8,321	971
	Units	165	120	39	26	26	48	20
Residential, single (with PIP)	$million	1,172	150	63	39	28	35	48
	Units	24	13	5	4	2	4	3
Residential, single (no PIP)	$million	142	16	28	16	0	0	0
	Units	19	4	5	4	0	0	0
Residential, single (no PIP with indemnity)	$million	9,473	9,664	3,687	381	566	7,939	778
	Units	45	56	13	5	11	32	8
Residential, multiple	$million	385	245	86	15	83	67	80
	Units	22	19	7	4	6	4	5
Social Housing	$million	1,188	780	207	262	270	242	7
	Units	24	16	4	6	4	5	1
Mixed	$million	493	159	74	42	21	38	58
	Units	31	12	5	3	3	3	3
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.86	6.30	6.47	6.61	6.49	6.23	5.88
MBS Prepayable (no PIP)		5.92	6.36	6.52	6.67	6.54	6.29	5.94
MBS Non-prepayable		5.76	6.27	6.42	6.56	6.42	6.22	5.88
MBS MMUF		5.81	6.33	6.47	6.61	6.48	6.28	5.94
Mortgage rates		7.56	8.35	8.25	8.48	8.52	8.25	8.15
GOCs		5.47	5.96	6.10	6.27	6.13	5.89	5.55
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.40	0.35	0.37	0.35	0.36	0.34	0.34
Prepayable (no PIP)		0.45	0.40	0.43	0.40	0.42	0.39	0.39
Non-prepayable		0.30	0.31	0.33	0.29	0.30	0.33	0.34
MMUF		0.35	0.37	0.37	0.35	0.35	0.38	0.39
Mortgage rates		2.09	2.39	2.15	2.22	2.39	2.36	2.60

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

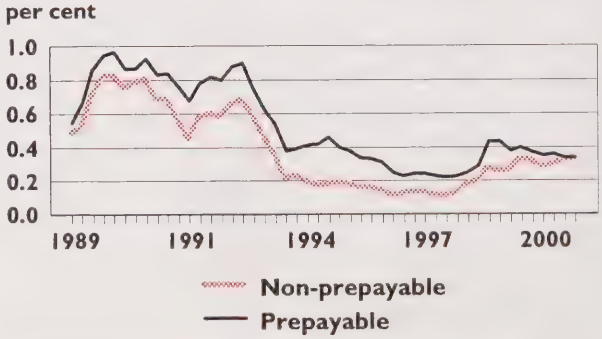
CMHC - MAC 2001

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 2000 ISSUES

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Month of Issue: October 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-596	Alberta Motor Assoc.Insur.Comp	18,545,309.73	5.80	2005-10-01	8.09	23.17
NHA-Insured Market Residential Pools (Mixed)						
96-501-408	Equitable Trust Company (The)	22,998,557.60	6.00	2005-10-01	6.83	22.15
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-539	Peoples Trust Company	14,857,897.21	5.25	2005-10-01	6.77	21.50
96-601-547	Peoples Trust Company	14,872,736.27	6.25	2010-10-01	6.84	22.81
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-430	Bank of Montreal	86,306,099.20	5.38	2005-10-01	7.55	11.83
97-002-448	M.R.S. Trust Company	6,996,930.16	6.20	2005-10-01	7.56	23.15
97-002-455	Bank of Montreal	70,393,960.61	5.00	2003-10-01	7.48	21.37
97-002-463	Bank of Montreal	323,045,156.89	5.38	2005-10-01	7.53	22.00
Month of Issue: November 2000						
NHA-Insured Market Residential Pools (Mixed)						
96-501-416	Equitable Trust Company (The)	5,366,128.45	6.50	2010-09-01	7.28	23.69
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-471	National Bank of Canada	266,107,561.70	5.88	2005-09-01	7.61	21.54
97-002-489	M.R.S. Trust Company	6,209,283.92	6.25	2005-11-01	7.43	22.91
Month of Issue: December 2000						
NHA-Insured Market Residential Pools (Single Units)						
96-413-612	Alberta Motor Assoc.Insur.Comp	16,327,788.18	5.60	2005-12-01	7.98	22.94
96-413-620	Vancouver City Savings CU	13,478,786.63	6.20	2005-10-01	7.37	21.63
NHA-Insured Market Residential Pools (Mixed)						
96-501-424	Equitable Trust Company (The)	29,909,695.65	5.80	2005-12-01	6.70	13.86
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-554	Bank of Nova Scotia	8,379,159.68	6.00	2006-02-01	6.57	20.01
96-601-562	Peoples Trust Company	23,468,466.45	5.60	2005-12-01	6.82	21.79
96-601-570	Peoples Trust Company	18,171,963.43	5.60	2010-12-01	6.89	21.66

Continued on page 8

NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 2000 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: December 2000						
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-497	Home Trust Company	12,422,409.94	5.75	2005-11-01	8.56	22.83
97-002-505	M.R.S. Trust Company	6,472,374.17	6.10	2005-12-01	7.35	23.54
Social Housing Pools						
99-008-310	Peoples Trust Company	6,938,828.85	5.75	2019-05-01	6.85	18.42

*PIP stands for Penalty Interest Payments

Source: CMHC

CMHC - MAC 2001

Definition of NHA MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, Acting General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305.

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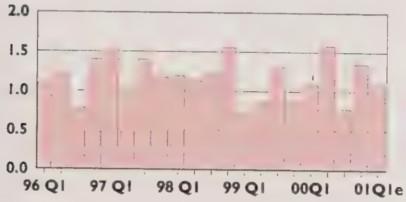
CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Second Quarter, 2001

MORTGAGE LENDING

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

RESIDENTIAL MORTGAGE CREDIT UP

by Ali Manouchehri, Senior Economist - Capital Markets

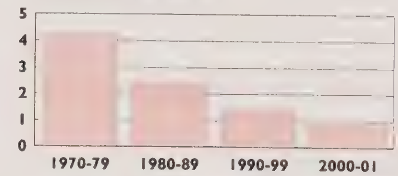
Residential mortgage credit grew by 4.9 per cent in the first quarter of 2001 compared to the same period last year, to reach $438.9 billion as mortgage rates declined and housing markets marched on.

Lower mortgage rates, higher house prices, higher housing starts, and rising disposable income helped support mortgage credit growth in the opening quarter of 2001.

New house prices rose 2.7 per cent and housing starts were up 1.5 per cent while the value of homes sold through MLS[1] increased by 6.7 per cent in the first quarter of 2001 compared to the same period last year. The broadly based active housing market helped raise mortgage credit outstanding in the opening quarter of 2001 by 4.9 per cent compared to the same period in 2000.

The growth rate of residential mortgage debt, at 1.0 per cent per quarter in 2000-01, remains below the historical norm experienced in 1970-1999, and should help ease

Slower residential mortgage credit growth



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

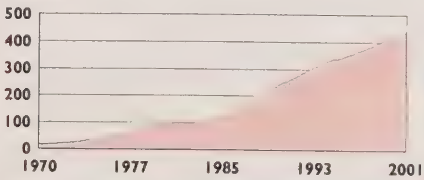
Continued on page 3

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%) *

	1Q00	2Q00	3Q00	4Q00	1Q01e
Banks	67.6	69.1	69.5	69.7	69.8
Trusts	3.0	2.0	1.8	1.8	2.0
Caisse & Co-op	13.9	13.8	13.8	13.8	13.8
Life Ins. Co.	4.6	4.5	4.4	4.4	4.3
Pension Funds	2.2	2.2	2.2	2.3	2.3
Others **	8.8	8.4	8.2	8.1	7.9

* Excludes Special Purpose Vehicles
** Includes non-depository credit intermediaries
e: estimate
Sources: Bank of Canada, CMHC, Statistics Canada MAC 2001

Residential mortgage credit marches on



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

In this Issue:

CMHC SCHL
HOME TO CANADIANS
Canada

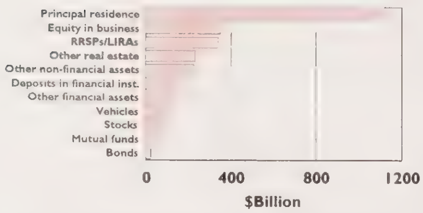
HOMES STILL THE CROWN JEWEL OF FAMILY ASSETS

by Ali Manouchehri, Senior Economist - Capital Markets

According to Statistics Canada's recently released Survey of Financial Security, principal residences continue to dominate family assets despite intense focus on financial assets in the late 1990s. Principal residences accounted for 38 per cent of family assets compared to 29 per cent for all financial assets combined.

Principal residences were valued at over $1.1 trillion in 1999, the largest asset class held by Canadian families.[1] Over 60 per cent of families owned their principal residences. RRSPs were the second largest class of assets, held by 55 per cent of families. By comparison only 14 per cent owned mutual funds, 14 per cent bonds, and 10 per cent stocks, all outside of their RRSPs.

Homes dominate family assets



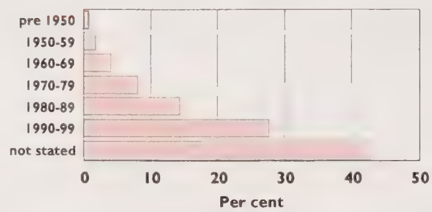
Sources: Statistics Canada, CMHC CMHC-MAC 2001

Homeownership desire strongly evident in the 1990s

Over one-quarter of homeowner families participating in the Survey of Financial Security in 1999 stated that they purchased their homes in the 1990s, almost twice as high as the proportion indicating they purchased their homes in the 1980s.

The average value of principal residences was estimated at $149,700 while the median was $125,000. Single family homes were the most desired type, accounting for 55 per cent of housing units held by families.

Over 25 per cent of families purchased their homes in the 1990s



Sources: Statistics Canada, CMHC CMHC-MAC 2001

Mortgages remain among the safest household debt class

Purchasing a home is often the largest single transaction an average family undertakes. Loans on principal residences accounted for 66 per cent of debts incurred by family units as of 1999. The average mortgage outstanding on principal residences was $76,100 with the median outstanding mortgage balance at $67,000. The ratio of mortgage loans to home values rose from 37.5 per cent in 1961 to over 50 per cent in 1999, reflecting higher financial leverage.[2] Despite the rising share of debt financing in home values, mortgages remain among the safest debt class with every dollar in mortgages backed by almost two dollars in the underlying asset.

Portfolio mix by age group

Homownership was less prevalent among younger families. Nearly three-quarter of those between 45-64 years old owned their principal residence compared to 63 per cent of those in the 35-44 years age group and 36 per cent for those younger than 35 years.

Younger Canadians less keen on homeownership

Sources: Statistics Canada, CMHC CMHC-MAC 2001

Younger Canadians were more likely to invest in financial assets, such as RRSPs, than homes. Nearly 55 per cent of those aged 25-34 had RRSPs compared to 43 per cent who held homes in their portfolios. Approximately 24 per cent of those under 25 years of age had RRSPs compared to 12 per cent who owned their homes. ■

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[1] Statistics Canada, Survey of Financial Security, 2001

[2] Statistics Canada, Balance sheet accounts, Persons and unincorporated businesses

Continued from page 1

concerns over residential mortgage debt load, especially in the context of disposable income rising at the rate of 1.4 per cent per quarter in 2000-01.

Stable mortgage market structure

There was little change in market share by institution type, with chartered banks accounting for approximately 70 per cent of the mortgage loans outstanding in the first quarter of 2001. Credit unions retained their second place position, accounting for 13.8 per cent of residential mortgage loans outstanding. A combination of mortgage credit outstanding in the primary market and mortgages issued and securitized by the lender through NHA MBS is used to calculate the market share for each type of lender. It approximates as closely as possible residential mortgage market share by lender on the basis of origination. ■

[1]Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

MORTGAGE RATES LOWER IN 2001 COMPARED TO LAST YEAR

by Ali Manouchehri, Senior Economist - Capital Markets

The near-term outlook for mortgage rates remains favourable due to interest rate cuts.

Despite already relaxed monetary conditions, further interest rate cuts are expected this year. The main factors pointing to lower mortgage rates include:

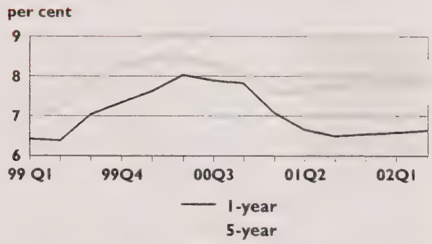
- equity market weakness and its potential impact on consumer spending;
- slower earning and employment growth in high tech and manufacturing; and
- lower interest rates in the U.S. and positive Canada-U.S. interest rate spreads despite our lower inflation rate.

While open and variable rate mortgages closely track the lenders' prime rate, fixed rate mortgages move in tandem with the bond market. As the prime rate, money market, and short-term bond yields continue to fall in the immediate future, so will short-term mortgage rates.

The outlook for mortgage rates is favourable with the one, three and five-year mortgage rates in the 6.50-7.50, 7.00-8.00, and 7.25-8.25 per cent range respectively over the next twelve months.

Mortgage rate discounts ranging from 0.5 to 1.5 percentage points will remain an important competitive instrument over the forecast horizon.

Lower mortgage rates in 2001



Sources: CMHC, Bank of Canada CMHC-MAC 2001
* 2001 data are CMHC forecast

Risks to the forecast

Interest and mortgage rates could move lower if the manufacturing sector weakens further, labour market and consumer spending weakness intensifies, or new sources of financial stress emerge in the U.S. and Canada. On the other hand, interest and mortgage rates could fall less than our base scenario if the Canadian dollar faced severe downward pressure, inflation escalated, or economic growth in Canada accelerated. ■

INDICATORS OF MORTGAGE LENDING ACTIVITY

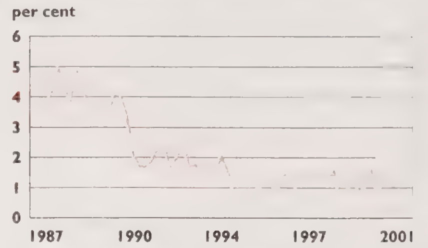
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1998	1999	2000	1Q00	2Q00	3Q00	4Q00	1Q01e
TOTAL	390,489	407,695	426,549	418,471	425,099	428,422	434,206	438,920
% change	5.0	4.4	4.6	1.1	1.6	0.8	1.3	1.1
Banks **	239,679	252,350	280,346	269,580	279,332	283,755	288,719	292,376
Trusts **	24,441	22,363	8,721	11,850	8,033	7,524	7,477	8,174
Caisse & Co-op **	53,145	54,176	56,188	55,316	55,866	56,460	57,109	57,755
Life Ins. Co. **	20,795	18,811	18,172	18,218	18,230	18,136	18,105	18,194
Pension Funds **	7,857	7,948	8,976	8,611	8,869	9,089	9,336	9,623
Others **, ***	35,623	35,360	33,992	34,922	33,921	33,470	33,655	33,037

*Seasonally adjusted data
e: estimate
** Excludes Special Purpose Vehicles
*** Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC, Statistics Canada

CMHC-MAC 2001

Quarterly residential mortgage credit growth



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

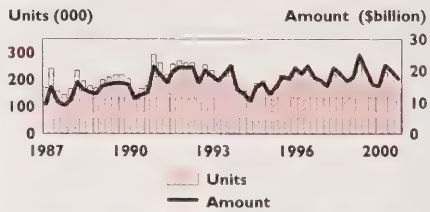
MORTGAGE LOANS APPROVED*

		1999	2000	4Q99	1Q00	2Q00	3Q00	4Q00
TOTAL	$ millions	78,321	73,964	15,377	15,146	21,644	19,828	17,346
	Units	814,934	738,357	159,455	156,397	228,110	197,762	169,388
By Type of Lender								
Banks	$ millions	60,229	54,404	11,915	11,169	15,800	14,810	12,625
	Units	599,583	519,418	117,790	109,153	151,898	142,658	115,709
Trusts	$ millions	4,662	4,211	791	895	1,332	1,169	814
	Units	52,429	42,643	9,080	9,302	12,603	11,389	9,349
Life Ins. Co.	$ millions	1,082	1,475	161	298	376	358	443
	Units	19,939	24,919	3,200	4,095	7,178	5,988	7,658
Others	$ millions	12,349	13,874	2,510	2,784	4,136	3,492	3,463
	Units	142,983	151,377	29,385	33,847	43,131	37,727	36,672

* Not seasonally adjusted
Source: CMHC

CMHC-MAC 2001

Mortgage loans approved



Source: CMHC CMHC-MAC 2001

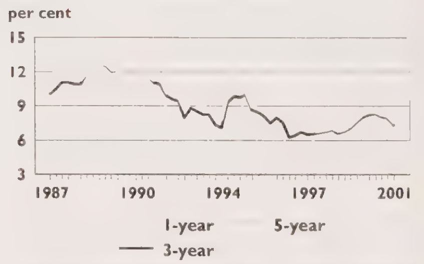
MORTGAGE RATES (%)*

	1998	1999	2000	1Q00	2Q00	3Q00	4Q00	1Q01
1-year	6.50	6.80	7.85	7.63	8.03	7.90	7.83	7.10
3-year	6.77	7.37	8.17	8.25	8.33	8.10	8.00	7.35
5-year	6.93	7.56	8.35	8.48	8.52	8.25	8.15	7.58

* Average of period
Sources: Bank of Canada, CMHC

CMHC-MAC 2001

Mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 2001

NHA MBS ISSUES REACH $1.7 BILLION IN THE FIRST QUARTER OF 2001

by Ali Manouchehri, Senior Economist - Capital Markets

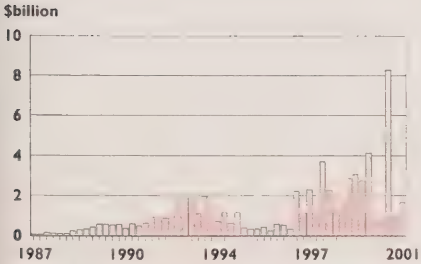
The NHA MBS market started the year with $1.7 billion in new issues in the first quarter, up 70.7 per cent from the previous quarter.

NHA MBS issues rose in the first quarter of 2001, with 22 new pools issued totalling $1.658 billion. This was up 70.7 per cent from the previous quarter, but lower than the $8.3 billion record issues in the third quarter of 2000.

A number of factors contributed to fostering a favourable environment for NHA MBS to grow in the opening months of 2001. These factors included:

- growing housing markets and strong demand for mortgages;
- portfolio management considerations by financial institutions; and
- CMHC's initiatives to introduce new pool types to accommodate a wider array of products, improve issuing process, and reduce issue costs.

Quarterly NHA MBS issues



Source: CMHC CMHC-MAC 2001

Single-family pools were the bright spot

Single-family mortgage pool types led the way in the first quarter of 2001 with the issue of 13 new pools amounting to $1.4 billion. The single-family indemnity pool type 970 continued to remain popular, with $403 million in new issues. Four pools amounting to $971 million were issued in the recently introduced pool type 975.

Social housing and mixed pools were up too

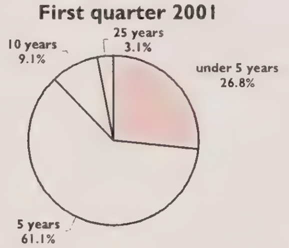
New issues of social housing and mixed pools at $171.2 and $74.8 million respectively in the first quarter of 2001 were up from the previous quarter.

Longer term issues dominant

While the 5-year term is the largest component of NHA MBS issues, longer terms accounted for 12.2 per cent of the new issues in the first quarter of 2001.

NHA MBS Issues by term

First quarter 2001



Source: CMHC CMHC-MAC 2001

Chartered banks led issuers

Chartered banks accounted for 90.8 per cent of new NHA MBS issues in the first quarter of 2001. Trusts, credit unions, and life insurance companies accounted for 6.2, 1.9 and 1.0 per cent of the new issues respectively during the quarter.

NHA MBS highlights

First quarter 2001

New issues:

- 22 pools amounting to $1.7 billion
- 13 single family-pools amounting to $1.4 billion or 85 per cent of all issues
- pool type 975 accounted for 58 per cent of all issues
- issues of social housing and mixed pools at $171.2 and $74.8 million were up

MBS-bond yield spreads:

- at 30-40 basis points for 5-year terms, spreads narrowed by 1-5 basis points from their levels in the previous quarter

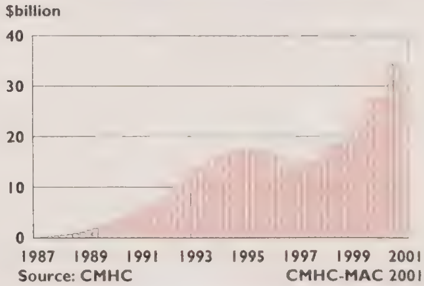
Outstanding volume:

- some $34.2 billion outstanding, up from $33.9 billion in the previous quarter

NHA MBS outstanding

Large issues of NHA MBS in the past four years helped raise outstanding volume to $34.2 billion by the first quarter of 2001, up from $33.9 billion in the previous quarter. ■

NHA MBS outstanding, end of quarter



Source: CMHC CMHC-MAC 2001

WHAT IS RESIDENTIAL MORTGAGE SECURITIZATION?

by Ali Manouchehri, Senior Economist - Capital Markets

Two main avenues used in residential mortgage securitization in Canada are National Housing Act Mortgage-Backed Securities (NHA MBS) and Special Purpose Vehicles (SPVs). A new avenue being introduced this year by CMHC is Canada Mortgage Bonds.

Residential mortgage securitization involves the repackaging, enhancement, and sale of residential mortgages in pools attractive to investors. This process allows a lender to remove mortgage assets from its books and reduce its capital requirements. It also provides an alternative funding source, allowing the lender to fund new mortgages from the sale proceeds.

Residential mortgages are among the safest classes of assets to securitize, thanks to loan-to-value restrictions and low default rates. Credit enhancements make residential mortgages even more desirable for securitization. In the case of NHA MBS, the three key safety factors are modified pass-through, mortgage insurance, and CMHC's timely payment guarantee.

Two main avenues used in residential mortgage securitization in Canada are National Housing Act Mortgage-Backed Securities (NHA MBS) and Special Purpose Vehicles (SPVs). These two avenues accounted for 12.2 per cent of total residential mortgage credit in the first quarter of this year. A new avenue being introduced this year by CMHC is Canada Mortgage Bonds. ■

CANADA MORTGAGE BONDS HIGHLIGHTS

- Announced in March of this year, the Canada Mortgage Bonds (CMB) Program is Canada Mortgage and Housing Corporation's newest housing finance initiative aimed at providing the mortgage market with an alternative and competitive source of funds, which will help lower mortgage financing costs to Canadians.
- With the Government of Canada guarantee, high liquidity and competitive yields, CMB will improve the supply of low cost funds available for mortgage lending in Canada and will become an important source of funding for Canada's mortgage market.
- CMBs are issued through Canada Housing Trust ™ (CHT). The bonds are semi-annual coupon, fixed rate, bullet maturity bonds.
- Through CMHC, the Government of Canada guarantees the timely payment of interest and principal on Canada Mortgage Bonds issued by CHT. CMBs carry Canada's AAA/Aa1 credit rating and a 0% capital weighting under the Bank for International Settlements (BIS) guidelines.
- CMB issues will be large, highly liquid, and issued on a regular basis. The June 2001 inaugural issue of Canada Mortgage Bonds exceeded $2.2 billion and traded at a modest yield premium to Government of Canada bond issues. ■

SPECIAL PURPOSE VEHICLES (SPVs)

An SPV is a conduit, normally a single purpose trust, which purchases financial assets, such as residential mortgages, from financial institutions or other corporations. The conduit pays for the assets by issuing its own debt. Special Purpose Vehicles, introduced in 1992, have grown substantially since 1996. The outstanding volume of residential mortgages securitized through SPVs reached $19.7 billion by the first quarter of 2001. ■

NHA MORTGAGE-BACKED SECURITIES

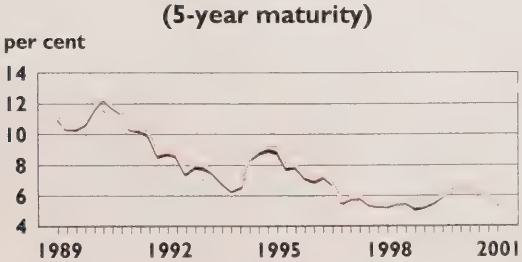
(Average of period except when indicated)

		1999	2000	1Q00	2Q00	3Q00	4Q00	1Q01
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	27,691	33,924	27,709	27,610	34,305	33,924	34,217
	Units	1,072	1,005	1,052	1,043	1,036	1,005	993
Residential, single (with PIP)	$million	2,208	1,976	2,171	2,097	2,013	1,976	1,898
	Units	323	254	301	285	266	254	246
Residential, single (no PIP)	$million	1,169	918	1,142	1,071	990	918	849
	Units	201	175	199	193	184	175	169
Residential, single (no PIP with indemnity)	$million	17,721	24,325	17,701	17,621	24,505	24,325	23,748
	Units	188	236	193	204	232	236	234
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	0	0	958
	Units	0	0	0	0	0	0	4
Residential, multiple	$million	1,579	1,467	1,565	1,563	1,482	1,467	1,434
	Units	109	110	111	115	114	110	109
Social Housing	$million	3,693	3,809	3,782	3,902	3,933	3,809	3,843
	Units	150	122	146	141	134	122	119
Mixed	$million	1,321	1,430	1,348	1,356	1,383	1,430	1,488
	Units	101	108	102	105	106	108	112
ISSUES (Total of period)								
TOTAL	$million	12,854	11,014	755	967	8,321	971	1,658
	Units	165	120	26	26	48	20	22
Residential, single (with PIP)	$million	1,172	150	39	28	35	48	35
	Units	24	13	4	2	4	3	3
Residential, single (no PIP)	$million	142	16	16	0	0	0	0
	Units	19	4	4	0	0	0	0
Residential, single (no PIP with indemnity)	$million	9,473	9,664	381	566	7,939	778	403
	Units	45	56	5	11	32	8	6
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	0	0	971
	Units	0	0	0	0	0	0	4
Residential, multiple	$million	385	245	15	83	67	80	4
	Units	22	19	4	6	4	5	1
Social Housing	$million	1,188	780	262	270	242	7	171
	Units	24	16	6	4	5	1	3
Mixed	$million	493	159	42	21	38	58	75
	Units	31	12	3	3	3	3	5
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.86	6.30	6.61	6.49	6.23	5.88	5.41
MBS Prepayable (no PIP)		5.92	6.36	6.67	6.54	6.29	5.94	5.47
MBS Non-prepayable		5.76	6.27	6.56	6.42	6.22	5.88	5.37
MBS MMUF		5.81	6.33	6.61	6.48	6.28	5.94	5.43
Mortgage rates		7.56	8.35	8.48	8.52	8.25	8.15	7.58
GOCs		5.47	5.96	6.27	6.13	5.89	5.55	5.09
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.40	0.35	0.35	0.36	0.34	0.34	0.32
Prepayable (no PIP)		0.45	0.40	0.40	0.42	0.39	0.39	0.38
Non-prepayable		0.30	0.31	0.29	0.30	0.33	0.34	0.29
MMUF		0.35	0.37	0.35	0.35	0.38	0.39	0.34
Mortgage rates		2.09	2.39	2.22	2.39	2.36	2.60	2.50

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

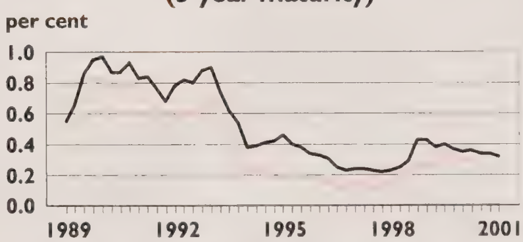
CMHC - MAC 2001

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

NHA MORTGAGE-BACKED SECURITIES

JANUARY TO MARCH 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: February 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-638	Alberta Motor Assoc.Insur.Comp	3,169,690.41	5.700	2011-02-01	8.55	22.48
NHA-Insured Market Residential Pools (Mixed)						
96-501-432	Equitable Trust Company (The)	16,111,978.87	5.450	2006-02-01	6.68	18.56
96-501-440	Equitable Trust Company (The)	10,493,311.26	5.850	2011-02-01	6.86	24.27
96-501-457	Peoples Trust Company	19,449,930.33	5.800	2011-02-01	6.56	22.40
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-513	M.R.S. Trust Company	7,485,887.90	5.500	2006-02-01	7.03	22.78
97-002-521	La Capitale MFQ Insurance Inc.	13,601,863.58	5.250	2006-02-01	7.17	22.13
Social Housing Pools						
99-008-328	Bank of Nova Scotia	8,434,349.00	5.150	2006-02-01	5.68	35.00
Month of Issue: March 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-646	Alberta Motor Assoc.Insur.Comp	15,050,673.94	5.500	2006-03-01	7.42	23.16
96-413-661	Vancouver City Savings CU	17,221,478.22	6.000	2006-02-01	7.17	21.55
NHA-Insured Market Residential Pools (Mixed)						
96-501-473	Peoples Trust Company	22,871,992.58	5.125	2006-03-01	6.16	21.50
96-501-481	Peoples Trust Company	5,844,314.82	5.500	2011-03-01	6.45	22.10
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-596	Toronto-Dominion Bank	3,727,278.56	5.125	2006-03-01	5.99	25.00
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-539	National Bank of Canada	174,767,918.68	5.250	2006-01-01	7.52	21.27
97-002-547	Home Trust Company	14,546,901.97	5.000	2006-01-01	8.23	23.00
97-002-554	M.R.S. Trust Company	6,588,112.16	5.400	2006-03-01	6.86	22.15
97-002-562	Bank of Montreal	185,518,741.37	5.000	2006-03-01	7.21	21.80
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-011	Toronto-Dominion Bank	175,582,727.33	5.000	2006-01-01	8.25	21.65
97-500-029	Toronto-Dominion Bank	281,385,325.96	5.000	2005-08-01	7.39	20.94
97-500-037	Toronto-Dominion Bank	162,461,276.58	5.000	2005-08-01	8.36	21.12
97-500-045	Toronto-Dominion Bank	351,216,148.56	5.000	2006-02-01	7.33	21.35
Social Housing Pools						
99-008-344	Toronto-Dominion Bank	111,776,444.37	5.500	2011-03-01	6.12	24.43
99-008-351	Toronto-Dominion Bank	50,987,019.74	6.000	2026-03-01	6.51	27.57

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 2001

Definition of NHA MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

975 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions (5-year term)

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

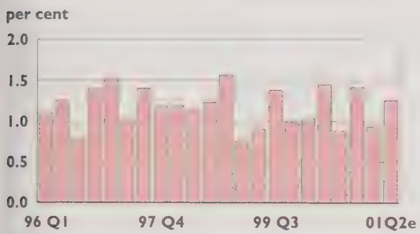
CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Third Quarter, 2001

MORTGAGE LENDING

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%) *

	2Q00	3Q00	4Q00	1Q01	2Q01e
Banks	69.1	69.5	69.7	69.8	70.0
Trusts	2.0	1.8	1.8	1.8	1.8
Caisse & Co-op	13.8	13.8	13.8	13.9	14.1
Life Ins. Co.	4.5	4.4	4.4	4.4	4.3
Pension Funds	2.2	2.2	2.2	2.3	2.3
Others **	8.4	8.1	8.1	7.8	7.6

* Excludes Special Purpose Vehicles
** Includes non-depository credit intermediaries
e: estimate
Sources: Bank of Canada, CMHC, Statistics Canada MAC 2001

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

In this Issue:

MORTGAGE CREDIT INCHING UP

by Ali Manouchehri, Senior Economist - Capital Markets

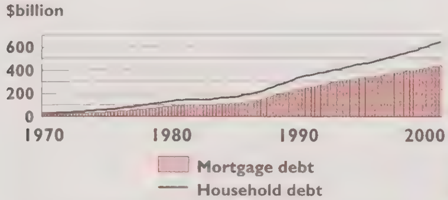
Low mortgage rates, rising disposable income and high consumer confidence laid the foundation for an active housing market and growth in mortgage credit in the second quarter of 2001.

Active housing markets set the tune

Rising home sales, house prices, and home building in the second quarter of 2001 combined with low mortgage rates helped residential mortgage credit grow 1.3 per cent over the previous quarter. Residential mortgage debt reached $443.9 billion in the second quarter of this year, accounting for 69.2 per cent of household debt.

Resale markets led the way with the number of homes sold through MLS [1] rising by 5.4 per cent and the average price up by 3.1 per cent in the second quarter of 2001. Although home construction increased only 0.3 per cent over the previous quarter, the level of housing starts at seasonally adjusted annual rate of 163,500 units in the second quarter of this year was the highest in seven years.■

Residential mortgage credit up



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

Due to the recent events and their exceptionnal impact on the economy, the article on provincial mortgage markets is not published in this Mortgage Markets Trends issue. Your subscription will therefore be prolonged by one quarterly issue.

CMHC SCHL

HOME TO CANADIANS

Canada

INDICATORS OF MORTGAGE LENDING ACTIVITY

MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1998	1999	2000	2Q00	3Q00	4Q00	1Q01	2Q01e
TOTAL	390,489	408,076	427,075	425,197	428,941	435,035	439,074	443,913
% change	5.0	4.5	4.7	1.4	0.9	1.4	0.9	1.1
Banks **	239,865	252,535	280,529	279,515	283,938	288,900	292,557	297,237
Trusts **	24,439	22,372	8,712	8,031	7,514	7,456	7,674	7,495
Caisse & Co-op **	53,145	54,182	56,194	55,867	56,533	57,059	58,204	59,677
Life Ins. Co. **	20,795	18,857	18,183	18,214	18,132	18,115	18,228	18,269
Pension Funds **	7,857	7,948	8,962	8,869	9,089	9,280	9,509	9,795
Others **, ***	35,438	35,495	33,986	33,854	33,267	33,478	32,802	32,100

*Seasonally adjusted data
e: estimate
** Excludes Special Purpose Vehicles
*** Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC, Statistics Canada

CMHC-MAC 2001

Quarterly residential mortgage credit growth

Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

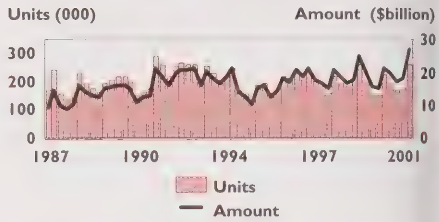
MORTGAGE LOANS APPROVED*

		1999	2000	2Q00	3Q00	4Q00	1Q01	2Q01
TOTAL	$ millions	78,321	73,964	21,644	19,828	17,346	18,374	27,118
	Units	814,934	738,357	228,110	197,762	169,388	180,012	260,126
By Type of Lender								
Banks & Other	$ millions	72,578	68,278	19,936	18,302	16,088	17,005	25,490
	Units	742,566	670,795	195,029	180,385	152,381	162,948	240,186
Trusts	$ millions	4,662	4,211	1,332	1,169	814	928	1,246
	Units	52,429	42,643	12,603	11,389	9,349	9,547	12,240
Life Ins. Co.	$ millions	1,082	1,475	376	358	443	441	382
	Units	19,939	24,919	7,178	5,988	7,658	7,517	7,700

* Not seasonally adjusted
Source: CMHC

CMHC-MAC 2001

Mortgage loans approved



Source: CMHC
CMHC-MAC 2001

MORTGAGE RATES (%)*

	1998	1999	2000	2Q00	3Q00	4Q00	1Q01	2Q01
1-year	6.50	6.80	7.85	8.03	7.90	7.83	7.10	6.73
3-year	6.77	7.37	8.17	8.33	8.10	8.00	7.35	7.23
5-year	6.93	7.56	8.35	8.52	8.25	8.15	7.58	7.67

* Average of period
Sources: Bank of Canada, CMHC

CMHC-MAC 2001

Mortgage rates

Sources: CMHC, Bank of Canada
CMHC-MAC 2001

NHA MBS ISSUES UP IN THE SECOND QUARTER OF 2001

ɔy Ali Manouchehri, Senior Economist - Capital Markets

The NHA MBS issues at $3.2 billion in the second quarter of 2001 were nearly double the volume issued in the ɔrevious quarter.

NHA MBS issues rose in the ;econd quarter of 2001, with 41 new ɔools issued totalling $3.2 billion.This vas up 94.5 per cent from the ɔrevious quarter.

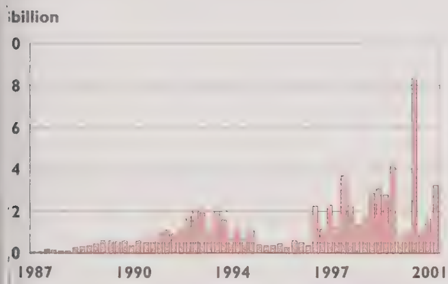
A number of factors contributed 'o fostering a favourable environment 'or NHA MBS to grow in the second ɥuarter of 2001.These factors ncluded:

♦ The introduction of CMHC`s Canada Mortgage Bonds Program;

♦ portfolio management :onsiderations by financial institutions; ɩnd

♦ growing housing markets and trong demand for mortgages.

Quarterly NHA MBS issuance



ource: CMHC CMHC-MAC 2001

;ingle-family pools continue to ɜad

The single-family mortgage pool ʏpes led the way in the second uarter of 2001 with the issue of 26 ew pools amounting to $2.7 billion. 'he single-family 970 indemnity pools ɔntinued to remain popular, with early $2.1 billion in new issues. The ɔol type 975 came in second with 621 million in new issues.

Social housing, multiple, and mixed pools up as well

New issues of social housing, multiple, and mixed pools reached $293.8, $50.4 and $138.3 million respectively in the second quarter of 2001.

Longer term issues are the norm

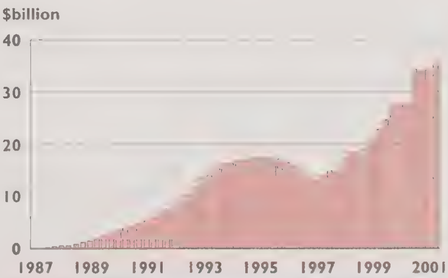
The 5-year term, at 93 per cent of the new issues, was the largest component of NHA MBS, followed by longer terms at 4.6 per cent of the new issues in the second quarter of 2001.

NHA MBS outstanding

Large issues of NHA MBS since 1997 helped raise outstanding volume to $35.4 billion by the second quarter of 2001, up from $34.2 billion in the previous quarter.

NHA MBS accounted for 7.9 percent of residential mortgage credit outstanding in the second quarter of this year. On the other hand, Special Purpose Vehicles' (SPV) accounted for 4.3 per cent of residential mortgage credit outstanding in the same period.■

NHA MBS outstanding, end of quarter



Source: CMHC CMHC-MAC 2001

NHA MBS highlights

Second quarter 2001

New issues:

- 41 pools amounting to $3.2 billion
- pool type 970 accounted for 63 per cent of all issues
- 26 single family-pools totalling $2.7 billion or 84 per cent of all issues
- issues of social housing, multiple, and mixed pools at $293.8, $50.4, and $138.3 million respectively were up

MBS-bond yield spreads:

- at 26-36 basis points for 5-year terms, spreads narrowed by 1-3 basis points from their levels in the previous quarter

Outstanding volume:

- $35.4 billion outstanding, up from $34.2 billion in the previous quarter

NHA MORTGAGE-BACKED SECURITIES

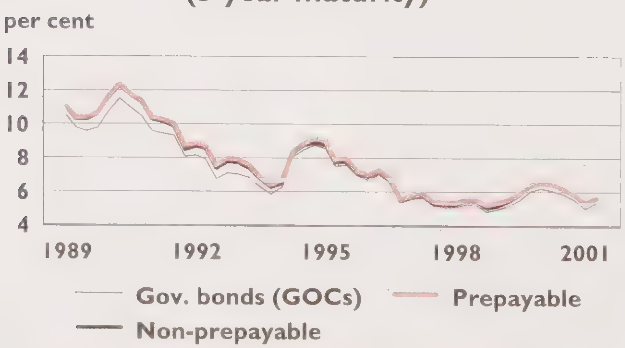
(Average of period except when indicated)

		1999	2000	2Q00	3Q00	4Q00	1Q01	2Q01
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	27,691	33,924	27,610	34,305	33,924	34,217	35,391
	Units	1,072	1,005	1,043	1,036	1,005	993	986
Residential, single (with PIP)	$million	2,208	1,976	2,097	2,013	1,976	1,898	1,847
	Units	323	254	285	266	254	246	241
Residential, single (no PIP)	$million	1,169	918	1,071	990	918	849	750
	Units	201	175	193	184	175	169	160
Residential, single (no PIP with indemnity)	$million	17,721	24,325	17,621	24,505	24,325	23,748	24,253
	Units	188	236	204	232	236	234	239
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	0	958	1,545
	Units	0	0	0	0	0	4	9
Residential, multiple	$million	1,579	1,467	1,563	1,482	1,467	1,434	1,393
	Units	109	110	115	114	110	109	106
Social Housing	$million	3,693	3,809	3,902	3,933	3,809	3,843	4,023
	Units	150	122	141	134	122	119	113
Mixed	$million	1,321	1,430	1,356	1,383	1,430	1,488	1,580
	Units	101	108	105	106	108	112	118
ISSUES (Total of period)								
TOTAL	$million	12,854	11,014	967	8,321	971	1,658	3,226
	Units	165	120	26	48	20	22	41
Residential, single (with PIP)	$million	1,172	150	28	35	48	35	74
	Units	24	13	2	4	3	3	5
Residential, single (no PIP)	$million	142	16	0	0	0	0	11
	Units	19	4	0	0	0	0	1
Residential, single (no PIP with indemnity)	$million	9,473	9,664	566	7,939	778	403	2,037
	Units	45	56	11	32	8	6	15
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	0	971	621
	Units	0	0	0	0	0	4	5
Residential, multiple	$million	385	245	83	67	80	4	50
	Units	22	19	6	4	5	1	3
Social Housing	$million	1,188	780	270	242	7	171	294
	Units	24	16	4	5	1	3	4
Mixed	$million	493	159	21	38	58	75	138
	Units	31	12	3	3	3	5	8
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.86	6.30	6.49	6.23	5.88	5.41	5.72
MBS Prepayable (no PIP)		5.92	6.36	6.54	6.29	5.94	5.47	5.77
MBS Non-prepayable		5.76	6.27	6.42	6.22	5.88	5.37	5.67
MBS MMUF		5.81	6.33	6.48	6.28	5.94	5.43	5.72
Mortgage rates		7.56	8.35	8.52	8.25	8.15	7.58	7.67
GOCs		5.47	5.96	6.13	5.89	5.55	5.09	5.41
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.40	0.35	0.36	0.34	0.34	0.32	0.31
Prepayable (no PIP)		0.45	0.40	0.42	0.39	0.39	0.38	0.36
Non-prepayable		0.30	0.31	0.30	0.33	0.34	0.29	0.26
MMUF		0.35	0.37	0.35	0.38	0.39	0.34	0.31
Mortgage rates		2.09	2.39	2.39	2.36	2.60	2.50	2.26

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

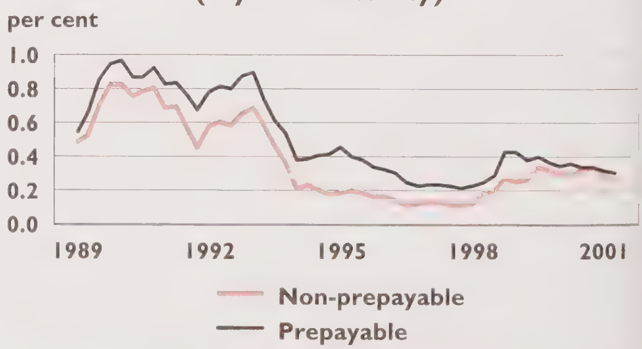
CMHC - MAC 2001

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

NHA MORTGAGE-BACKED SECURITIES

APRIL TO JUNE 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: April 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-653	Alberta Motor Assoc.Insur.Comp	14,167,606.50	5.150	2006-04-01	7.21	22.85
NHA-Insured Market Residential Pools (Mixed)						
96-501-465	Toronto-Dominion Bank	9,065,543.00	5.375	2011-04-01	6.05	35.00
96-501-507	Equitable Trust Company (The)	2,241,049.34	5.350	2004-04-01	6.15	17.00
96-501-515	Equitable Trust Company (The)	8,541,760.04	5.650	2006-04-01	6.55	19.05
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-588	M.R.S. Trust Company	7,989,527.03	5.200	2006-04-01	6.63	22.48
97-002-596	Bank of Montreal	202,083,602.59	5.125	2005-12-01	7.39	21.33
Social Housing Pools						
99-008-369	Bank of Nova Scotia	9,369,152.00	5.450	2011-04-01	5.98	31.86
99-008-377	Bank of Nova Scotia	187,962,572.67	4.800	2006-04-01	5.34	26.30
Month of Issue: May 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-679	Alberta Motor Assoc.Insur.Comp	15,672,661.12	5.500	2006-05-01	7.00	22.77
96-413-695	Vancouver City Savings CU	13,222,560.52	5.500	2006-04-01	6.81	20.34
NHA-Insured Market Residential Pools (Mixed)						
96-501-523	Maritime Life Assurance Co.	78,257,020.23	5.430	2011-05-01	6.51	24.62
96-501-549	Equitable Trust Company (The)	7,502,666.85	6.000	2011-05-01	6.77	24.91
96-501-556	Equitable Trust Company (The)	8,316,087.85	5.450	2006-05-01	6.26	17.99
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-604	Peoples Trust Company	16,408,555.35	5.100	2006-05-01	5.88	23.53
96-601-612	Peoples Trust Company	15,747,191.25	5.650	2011-05-01	6.43	24.90
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-604	M.R.S. Trust Company	8,493,803.00	5.600	2006-05-01	6.40	22.97
97-002-653	Bank of Montreal	80,649,415.19	4.875	2004-03-01	7.11	21.12
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-052	Home Trust Company	11,811,487.81	5.625	2006-04-01	8.00	22.95
Social Housing Pools						
99-008-385	Bank of Nova Scotia	66,321,558.49	5.100	2006-05-01	5.63	26.78

Definition of NHA MBS pool types

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965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

NHA MORTGAGE-BACKED SECURITIES

APRIL TO JUNE 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS
Month of Issue: June 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-687	Alberta Motor Assoc.Insur.Comp	20,503,675.58	5.800	2006-06-01	7.05	23.02
96-413-703	Alberta Motor Assoc.Insur.Comp	10,294,321.66	5.600	2006-06-01	7.11	22.86
NHA-Insured Market Residential Pools (Mixed)						
96-501-564	Equitable Trust Company (The)	14,902,893.22	5.600	2006-06-01	6.40	19.83
96-501-572	Equitable Trust Company (The)	9,450,203.51	5.200	2006-06-01	5.96	18.75
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-638	Peoples Trust Company	18,246,008.64	5.950	2011-06-01	6.86	29.38
NHA-Insured Market Residential Pools (Non PIP)						
96-702-709	Bank of Montreal	10,844,168.29	6.625	2019-06-01	7.37	20.43
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-612	National Bank of Canada	75,131,469.92	5.750	2006-03-01	7.08	21.18
97-002-620	National Bank of Canada	53,821,794.40	5.500	2006-04-01	6.68	21.06
97-002-638	National Bank of Canada	28,407,070.02	5.750	2006-03-01	7.09	11.01
97-002-646	National Bank of Canada	18,255,240.17	5.500	2006-04-01	6.71	11.03
97-002-661	Bank of Montreal	114,963,198.03	5.450	2006-06-01	6.61	21.76
97-002-679	Royal Bank of Canada	574,973,320.39	5.750	2006-05-01	6.80	21.13
97-002-687	M.R.S. Trust Company	5,991,715.55	5.600	2006-06-01	6.40	22.90
97-002-695	Cnd.Imperial Bank of Commerce	400,088,078.13	5.750	2006-06-01	7.27	22.43
97-002-703	Maple Trust Company	111,116,791.70	5.490	2006-06-01	6.38	22.06
97-002-711	Laurentian Bank of Canada	55,026,580.44	5.500	2006-06-01	6.97	21.82
97-002-729	Bank of Nova Scotia	300,002,848.28	5.500	2006-06-01	6.89	21.90
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-060	Toronto-Dominion Bank	97,553,181.83	5.250	2006-06-01	6.91	11.80
97-500-078	Toronto-Dominion Bank	237,245,721.58	5.250	2006-06-01	6.39	21.75
97-500-086	Toronto-Dominion Bank	159,477,274.81	5.250	2006-06-01	7.33	21.80
97-500-094	Maple Trust Company	115,369,820.47	5.490	2006-06-01	6.63	22.14
Social Housing Pools						
99-008-393	Bank of Nova Scotia	30,115,563.84	5.200	2006-06-01	5.80	33.04

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 2001

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Ali Manouchehri, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2506, Internet: amanouch@cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305.

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 ISSN 1188-42 15 Printed in Canada
Product # 61496 - 2001-Q03

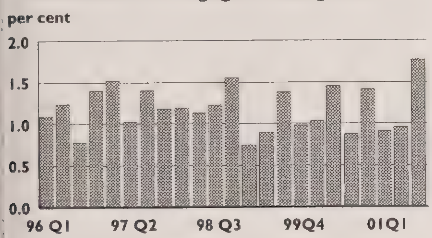
MHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

Fourth Quarter, 2001

MORTGAGE LENDING

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%) *

	3Q00	4Q00	1Q01e	2Q01	3Q01e
Banks	69.5	69.7	69.8	70.1	70.7
Trusts	1.8	1.8	1.9	1.9	1.8
Caisse & Co-op	13.8	13.8	13.8	13.9	13.8
Life Ins. Co.	4.4	4.4	4.4	4.3	4.3
Pension Funds	2.2	2.2	2.3	2.3	2.3
Others **	8.1	8.1	7.8	7.5	7.2

* Excludes Special Purpose Vehicles
** Includes non-depository credit intermediaries
e: estimate
Sources: Bank of Canada, CMHC, Statistics Canada CMHC-MAC 2001

In this Issue:

LOW MORTGAGE RATES LEND A HELPING HAND

by Ali Manouchehri, Senior Economist - Capital Markets

Residential mortgage credit grew by 1.8 per cent in the third quarter of 2001 to reach $451 billion as mortgage rates fell and housing markets remained healthy. As a result, residential mortgage debt expanded by 5.2 per cent in the third quarter of 2001 compared to the same quarter in 2000.

Despite a slowing economy, low mortgage rates and rising disposable income laid the foundation for strong housing markets and healthy growth in the mortgage market last quarter.

Falling mortgage rates

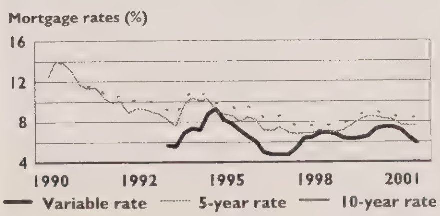
Variable and short-term mortgage rates declined by almost a half percentage point in the third quarter and stood about 1.75 percentage point lower than their levels a year earlier. Even the mid-term five-year mortgage rate was down by almost 0.75 percentage point since last year.

Low mortgage rates set the tune

Low mortgage rates anchored the housing markets, leading to an increase of 3.1 per cent in the value of homes sold through MLS [1] over the previous quarter. Along with the average price of existing homes, the New Housing Price Index rose 0.7 per cent, up by 3.0 per cent from its level a year ago. The strength in housing markets led to an increase of 1.8 per cent in mortgage credit outstanding in the third quarter of 2001 over the previous quarter. This raised residential mortgage debt by 5.2

Continued on page 3

Falling mortgage rates



Sources: CMHC CMHC-MAC 2001

CMHC SCHL

HOME TO CANADIANS

Canada

SLOWER GROWTH ON THE HORIZON FOR 2002

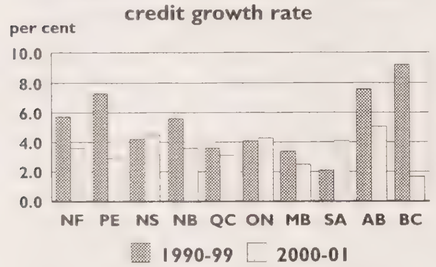
by Ali Manouchehri, Senior Economist - Capital Markets

Alberta will lead other provinces in mortgage credit growth next year. Low mortgage rates, moderate house price appreciation, and sustained home sales and housing starts will support a 2.0-3.0 per cent rise in mortgage loans outstanding in 2002.

Across the ten provinces, growth in mortgage credit slowed to 3.3 per cent between the second quarter of 2001 and the same quarter in 2000, compared to 5.1 per cent in the 1990s.

The slower mortgage credit expansion is largely due to moderate home construction, sales, and price growth in British Columbia and to some extent in Quebec, partially offset by stronger performances in Alberta and Ontario.

Average annual residential mortgage credit growth rate



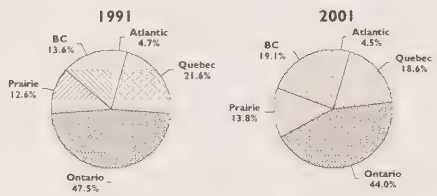
Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

British Columbia market size ranks second behind Ontario

Residential mortgage credit levels have traced housing market trends in each province and, accordingly have varied from province to province over time.

British Columbia's vibrant housing industry in the first half of the 1990s caused provincial mortgage credit to grow by an average of 13.6 per cent per year between 1990 and 1995, much faster than any other province. This rapid pace pushed British Columbia ahead of Quebec in terms of its mortgage market size despite the fact that its housing stock is only about half of the stock in Quebec, and positioned it second only to Ontario. A slowdown in home construction and sales in the province has lowered mortgage credit growth to 1.7 per cent per year since last year , but the province remains the second largest mortgage market in the country.

Regional distribution of residential mortgage loans outstanding



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

Provincial market structures

Nearly 92.4 per cent of residential mortgage loans are with chartered banks, credit unions, and mortgage and trust companies. However, market share by institution type varies from one province to another due to the nature and structure of housing and finance sectors in each province.

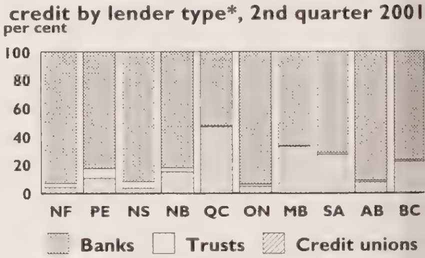
Credit unions account for over 46.9 per cent of the outstanding mortgage credit in Quebec.At the other end of the spectrum is Nova Scotia, where credit unions hold a market share of 4.0 per cent only.

Trust and mortgage companies' market share ranges from a low of 0.6 per cent in Quebec to a high of 7.3 per cent in Prince Edward Island.

Chartered banks enjoy the largest market share in every province. In Quebec they hold 52.4 per cent of residential mortgage loans outstanding, while in Ontario, Newfoundland and Nova Scotia their market share is over 90.0 per cent.

Lenders' market shares have also changed over time in response to changes in the finance industry.While independent trusts held over one-third of mortgage loans in the Maritimes, Ontario, and Alberta in the second quarter of 1991, a decade later they accounted for less than 7.5 per cent of the residential mortgage loans outstanding.

Market share of residential mortgage credit by lender type*, 2nd quarter 2001



Sources: CMHC, Bank of Canada, Statistics Canada
* Excludes other lender types CMHC-MAC 2001

Regional mortgage market outlook for 2002

Alberta will lead in mortgage credit growth

A strong Alberta economy aided by robust demand for oil and gas has propelled the housing and mortgage markets in Alberta and the Prairie region as a whole over the last few years. However, the housing and consequently mortgage market growth rates are expected to ease somewhat this year and next. Alberta will still lead

Continued on page

Continued from page 2

other provinces in mortgage credit growth with an increase of 3.3 per cent next year, while Saskatchewan and Manitoba will continue their slower growth pattern.

Overall, the region is expected to experience mortgage credit growth of 2.7 per cent next year. This growth will bring the region's share of the national mortgage market to 13.8 per cent.

Ontario's mortgage market will weaken

Ontario's healthy economy has led to rising housing starts, mortgage lending activity and mortgage credit growth since the mid 1990s, but the pace will slow in 2002.

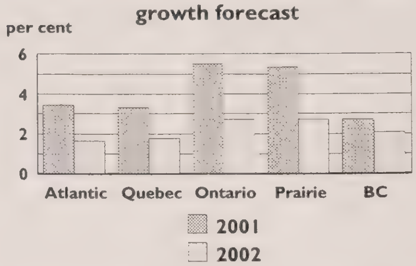
Housing starts and home sales are forecast to edge down in Ontario in 2001-2002, as auto related and other manufacturing exports to the U.S. weaken and the pace of job creation and consumer spending eases.As a result mortgage credit is expected to grow by 2.7 per cent next year.

Since Ontario accounts for about 44.1 per cent of outstanding mortgage loans and 36.7 per cent of housing stock, any slowdown in the province's housing and mortgage market will translate to a weaker national residential mortgage market.

A positive outlook for mortgage market in British Columbia

Since the mid-1990s, the pace of home construction and sales dampened in line with a weakening economy. This resulted in more moderate mortgage credit growth. The continued slowdown will likely constrain mortgage credit growth to about 2.0 per cent next year.The weak pace of housing and mortgage market in B.C. will have an appreciable impact on the national mortgage market since the province now accounts for nearly 19.1 per cent of national mortgage credit outstanding.

Regional residential mortgage credit growth forecast



Source: CMHC

CMHC-MAC 2001

Quebec's mortgage market is poised for moderate growth

Quebec's mortgage market has grown at a slower pace than the national average since the mid-1990s, following a pattern similar to its housing market.

Quebec's mortgage market is set to grow in 2002 with mortgage credit expanding by 1.8 per cent.

Atlantic region will lose some steam

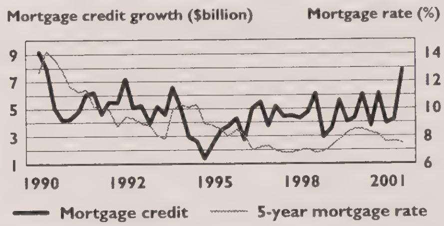
Slower housing markets across the Atlantic provinces will limit mortgage credit growth to 1.6 per cent next year. ■

Note:
Results presented in this article are based on data for lenders who provide breakdowns by province. These include chartered banks, independent trust and mortgage companies, and credit unions. The mortgage credit outstanding for these reached $337.5 billion by mid 2001, representing approximately 76.0 per cent of the $443.9 billion total for all financial institutions.
This data excludes activities of insurance companies, pension funds, brokerages, segregated and investment funds, and financial corporations for which no provincial breakdowns are available.

Continued from page 1

per cent compared to the third quarter of 2000, in line with the historical experience since mid-1990s. Mortgage debt now accounts less than 70 per cent of household debt, a smaller percentage than in the early to mid-1990s.

Low mortgage rates bode well for residential mortgage credit growth



Sources: CMHC, Bank of Canada CMHC-MAC 2001

Chartered banks lead in market share

Recent trends in market share by institution type continued, with chartered banks accounting for 70.6 per cent of the mortgage loans outstanding by the third quarter of 2001. Credit unions retained their second place position, accounting for 13.8 per cent of residential mortgage loans outstanding. ■

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[1]**Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association**

INDICATORS OF MORTGAGE LENDING ACTIVITY

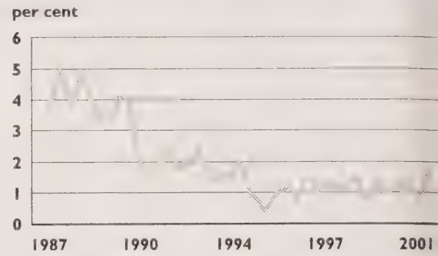
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1998	1999	2000	3Q00	4Q00	1Q01e	2Q01	3Q01e
TOTAL	390 489	408 076	427 075	428 941	435 032	438 986	443 190	451 062
% change	5,0	4,5	4,7	0,9	1,4	0,9	1,0	1,8
Banks **	239 865	252 535	280 529	283 938	288 900	292 557	297 237	305 706
Trusts **	24 439	22 372	8 712	7 514	7 456	7 758	7 870	7 805
Caisse & Co-op **	53 145	54 182	56 194	56 534	57 060	57 977	58 862	59 572
Life Ins. Co. **	20 795	18 857	18 183	18 132	18 114	18 273	18 422	18 413
Pension Funds **	7 857	7 948	8 962	9 089	9 280	9 518	9 812	10 055
Others **, ***	35 438	35 495	33 986	33 266	33 477	32 773	31 891	31 101

*Seasonally adjusted data
e: estimate
** Excludes Special Purpose Vehicles
*** Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC, Statistics Canada

CMHC-MAC 2001

Quarterly residential mortgage credit growt



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2001

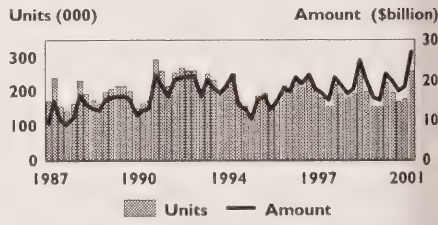
MORTGAGE LOANS APPROVED*

		1999	2000	3Q00	4Q00	1Q01	2Q01
TOTAL	$ millions	78,321	73,964	19,828	17,346	18,374	27,118
	Units	814,934	738,357	197,762	169,388	180,012	260,126
By Type of Lender							
Banks & Other	$ millions	72,578	68,278	18,302	16,088	17,005	25,490
	Units	742,566	670,795	180,385	152,381	162,948	240,186
Trusts	$ millions	4,662	4,211	1,169	814	928	1,246
	Units	52,429	42,643	11,389	9,349	9,547	12,240
Life Ins. Co.	$ millions	1,082	1,475	358	443	441	382
	Units	19,939	24,919	5,988	7,658	7,517	7,700

* Not seasonally adjusted
Source: CMHC

CMHC-MAC 2001

Mortgage loans approved



Source: CMHC
CMHC-MAC 2001

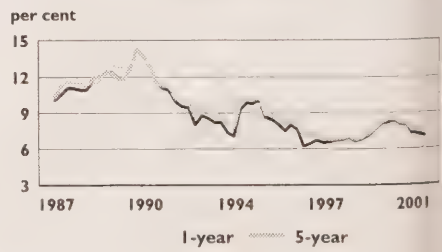
MORTGAGE RATES (%)*

	1998	1999	2000	3Q00	4Q00	1Q01	2Q01	3Q01
1-year	6.50	6.80	7.85	7.90	7.83	7.10	6.73	6.03
3-year	6.77	7.37	8.17	8.10	8.00	7.35	7.23	7.05
5-year	6.93	7.56	8.35	8.25	8.15	7.58	7.67	7.50

* Average of period
Sources: Bank of Canada, CMHC

CMHC-MAC 2001

Mortgage rates



Sources: CMHC, Bank of Canada
CMHC-MAC 2001

NHA MBS TAKES A BREATHER

by Ali Manouchehri, Senior Economist - Capital Markets

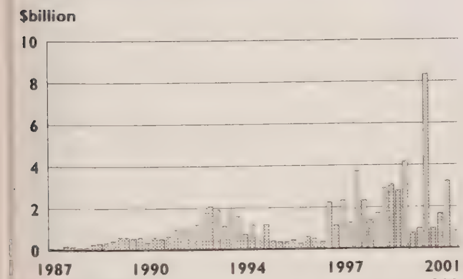
The NHA MBS market took a breather in the third quarter of 2001 following two consecutive quarters of robust activity in the first half of the year.

NHA MBS slowed in the third quarter of 2001 following a strong performance in the previous two quarters, with 30 new pools issued totaling $829 million.This was off the pace of $3,226 million in new issues in the previous quarter and a record $8,321 million in the same quarter a year ago.

MBS growth cooled by heightened financial uncertainty

A shrinking economy, heightened financial uncertainty around the globe, and falling interest rates south of the border led the Bank of Canada to cut short-term interest rates. The drop in short-term interest rates helped lower variable and short-term mortgage rates.The prevailing financial uncertainty combined with a full percentage point drop in short term-mortgage rates in the face of relatively smaller declines in longer-term mortgage rates slowed demand for funding mortgages through MBS. In the bigger picture, however, dwindling term deposits at financial institutions and underlying consumer preference for longer-term mortgages continue to underpin NHA MBS issuance in the quarters ahead.

Quarterly NHA MBS issuance



Source: CMHC CMHC-MAC 2001

Single-family indemnity and social housing pools lead the way

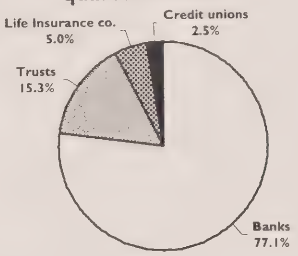
Single-family mortgage pool types led the way last quarter, with the issue of 17 new pools amounting to $515 million.The single-family indemnity pool 970 continued to remain popular and accounted for over half of the issued amount in the third quarter.

Social housing pools, amounting to $207.5 million, accounted for a quarter of new issues during the quarter.

Chartered banks led the issuers

Chartered banks accounted for 77.1 per cent of new NHA MBS issues, followed by trusts and life insurance companies at 15.3 and 5.0 per cent respectively.

Banks led NHA MBS issuance in the third quarter of 2001

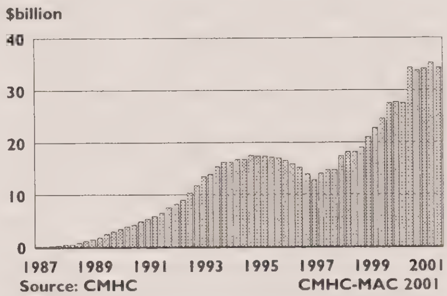


Source: CMHC CMHC-MAC 2001

NHA MBS outstanding

Modest issues of NHA MBS reduced the outstanding volume to $34.4 billion in the third quarter of 2001, accounting for 7.6 per cent of total residential mortgage credit outstanding in Canada. ▯

NHA MBS outstanding, end of quarter



Source: CMHC CMHC-MAC 2001

NHA MBS highlights

Third quarter 2001

New issues:

- √ 30 pools amounting to $829 million
- √ pool type 970 accounted for 51 per cent of all issues
- √ 17 single family-pools totalling $515 million or 62 per cent of all issues
- √ issues of social housing, multiple, and mixed pools at $207.5, $34.7, and $71.9 million respectively were down from the previous quarter

MBS-bond yield spreads:

- √ at 24-37 basis points for 5-year terms, spreads changed by 1-2 basis points from their levels in the previous quarter

Outstanding volume:

- √ $34.4 billion outstanding, down from $35.4 billion in the previous quarter

NHA MBS STATISTICS

NHA MORTGAGE-BACKED SECURITIES

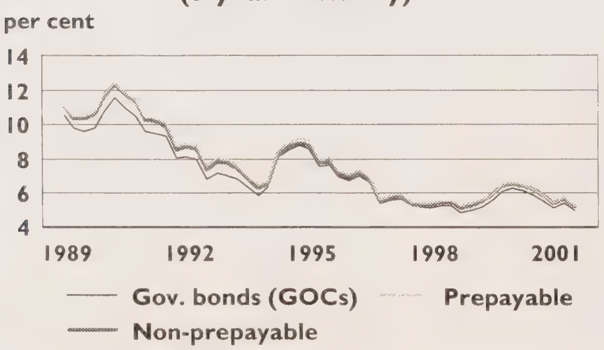
(Average of period except when indicated)

		1999	2000	3Q00	4Q00	1Q01	2Q01	3Q01
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	27,691	33,924	34,305	33,924	34,217	35,391	34,350
	Units	1,072	1,005	1,036	1,005	993	986	965
Residential, single (with PIP)	$million	2,208	1,976	2,013	1,976	1,898	1,847	1,798
	Units	323	254	266	254	246	241	230
Residential, single (no PIP)	$million	1,169	918	990	918	849	750	689
	Units	201	175	184	175	169	160	144
Residential, single (no PIP with indemnity)	$million	17,721	24,325	24,505	24,325	23,748	24,253	23,155
	Units	188	236	232	236	234	239	239
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	958	1,545	1,531
	Units	0	0	0	0	4	9	13
Residential, multiple	$million	1,579	1,467	1,482	1,467	1,434	1,393	1,381
	Units	109	110	114	110	109	106	106
Social Housing	$million	3,693	3,809	3,933	3,809	3,843	4,023	4,172
	Units	150	122	134	122	119	113	112
Mixed	$million	1,321	1,430	1,383	1,430	1,488	1,580	1,624
	Units	101	108	106	108	112	118	121
ISSUES (Total of period)								
TOTAL	$million	12,854	11,014	8,321	971	1,658	3,226	829
	Units	165	120	48	20	22	41	30
Residential, single (with PIP)	$million	1,172	150	35	48	35	74	62
	Units	24	13	4	3	3	5	5
Residential, single (no PIP)	$million	142	16	0	0	0	11	0
	Units	19	4	0	0	0	1	0
Residential, single (no PIP with indemnity)	$million	9,473	9,664	7,939	778	403	2,037	426
	Units	45	56	32	8	6	15	8
Residential, single (no PIP with indemnity, 5-year)	$million	0	0	0	0	971	621	26
	Units	0	0	0	0	4	5	4
Residential, multiple	$million	385	245	67	80	4	50	35
	Units	22	19	4	5	1	3	3
Social Housing	$million	1,188	780	242	7	171	294	207
	Units	24	16	5	1	3	4	5
Mixed	$million	493	159	38	58	75	138	72
	Units	31	12	3	3	5	8	5
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		5.86	6.30	6.23	5.88	5.41	5.72	5.28
MBS Prepayable (no PIP)		5.92	6.36	6.29	5.94	5.47	5.77	5.34
MBS Non-prepayable		5.76	6.27	6.22	5.88	5.37	5.67	5.21
MBS MMUF		5.81	6.33	6.28	5.94	5.43	5.72	5.27
Mortgage rates		7.56	8.35	8.25	8.15	7.58	7.67	7.50
GOCs		5.47	5.96	5.89	5.55	5.09	5.41	4.97
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.40	0.35	0.34	0.34	0.32	0.31	0.31
Prepayable (no PIP)		0.45	0.40	0.39	0.39	0.38	0.36	0.37
Non-prepayable		0.30	0.31	0.33	0.34	0.29	0.26	0.24
MMUF		0.35	0.37	0.38	0.39	0.34	0.31	0.30
Mortgage rates		2.09	2.39	2.36	2.60	2.50	2.26	2.53

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

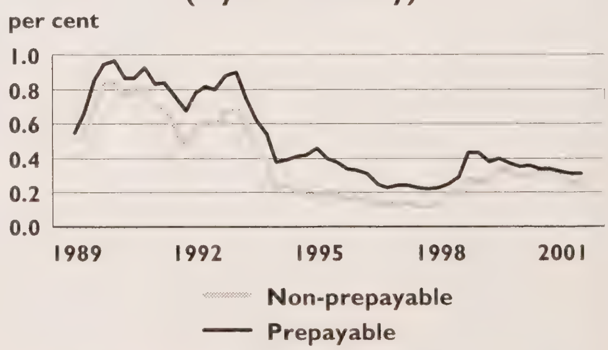
CMHC - MAC 2001

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2001

NHA MORTGAGE-BACKED SECURITIES

JULY TO SEPTEMBER 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: July 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-711	Alberta Motor Assoc.Insur.Comp	10,540,949.09	5.450	2006-07-01	7.20	22.94
96-413-729	Vancouver City Savings CU	20,552,359.84	5.400	2006-06-01	6.39	21.44
NHA-Insured Market Residential Pools (Mixed)						
96-501-580	Equitable Trust Company (The)	7,713,483.20	6.150	2011-07-01	7.03	23.48
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-653	Peoples Trust Company	14,388,244.34	5.400	2006-07-01	6.34	22.55
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-737	M.R.S. Trust Company	9,995,618.22	5.500	2006-07-01	6.57	22.81
97-002-745	Bank of Montreal	176,557,032.14	5.375	2006-06-01	6.81	21.42
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-128	Cnd.Imperial Bank of Commerce	2,000,822.45	5.850	2006-06-01	6.97	24.40
Social Housing Pools						
99-008-401	Toronto-Dominion Bank	4,127,541.00	5.375	2006-07-01	5.90	35.00
Month of Issue: August 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-737	Alberta Motor Assoc.Insur.Comp	12,458,400.13	5.600	2006-08-01	7.22	22.52
NHA-Insured Market Residential Pools (Mixed)						
96-501-499	Toronto-Dominion Bank	17,205,559.73	5.750	2011-08-01	6.30	17.11
96-501-598	Equitable Trust Company (The)	18,492,922.69	5.500	2006-08-01	6.20	24.83
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-646	Toronto-Dominion Bank	7,490,250.00	5.500	2006-08-01	6.05	25.00
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-752	M.R.S. Trust Company	7,514,197.74	5.600	2006-08-01	6.67	22.87
97-002-760	National Bank of Canada	24,796,562.10	5.500	2006-06-01	6.69	12.21
97-002-786	Bank of Montreal	110,336,774.81	5.125	2006-07-01	6.75	11.82
97-002-794	Bank of Montreal	48,196,270.61	5.000	2004-07-01	6.62	21.09
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-136	Cnd.Imperial Bank of Commerce	2,007,472.87	5.500	2006-05-01	6.22	23.71
Social Housing Pools						
99-008-419	Toronto-Dominion Bank	32,966,424.00	5.500	2006-08-01	6.04	35.00
99-008-427	Bank of Nova Scotia	90,059,048.93	5.300	2006-08-01	5.92	25.92

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 2001

Definition of NHA MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

975 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions (5-year term)

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

NHA MORTGAGE-BACKED SECURITIES

JULY TO SEPTEMBER 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS
Month of Issue: September 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-745	Alberta Motor Assoc.Insur.Comp	11,642,911.90	5.250	2006-09-01	7.20	22.57
96-413-752	Alberta Motor Assoc.Insur.Comp	7,041,585.20	5.125	2006-09-01	7.21	22.8
NHA-Insured Market Residential Pools (Mixed)						
96-501-606	Equitable Trust Company (The)	16,863,342.47	4.800	2006-09-01	6.12	21.79
96-501-614	Equitable Trust Company (The)	11,692,924.92	5.700	2011-09-01	6.81	24.97
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-661	Peoples Trust Company	12,828,363.44	5.400	2006-09-01	6.31	21.3
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-778	Bank of Nova Scotia	41,502,356.91	5.500	2006-06-01	7.30	19.47
97-002-802	M.R.S. Trust Company	7,487,521.97	5.350	2006-09-01	6.75	22.95
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-144	Home Trust Company	20,274,364.75	5.000	2006-08-01	7.47	23.6
97-500-151	Cnd.Imperial Bank of Commerce	2,000,556.42	5.300	2006-06-01	6.25	19.99
Social Housing Pools						
99-008-435	Toronto-Dominion Bank	19,687,076.47	4.875	2004-09-01	5.42	33.7
99-008-443	Toronto-Dominion Bank	60,618,462.40	5.000	2006-09-01	5.62	24.2

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 200

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Réal Gratton, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2239, Internet: rgratton@cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305.

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To receive your subscription over the Internet, visit http://www.cmhc-schl.gc.ca/MktInfo/Store $25.00 per issue. Annual subscription (4 issues) $85 + GST – Order No. MMTSE.

Cette publication est aussi disponible en français sous le titre SCHL – Tendances du marché hypothécaire – No de commande : MMTSF.

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Product # 61496 - 2001-Q04

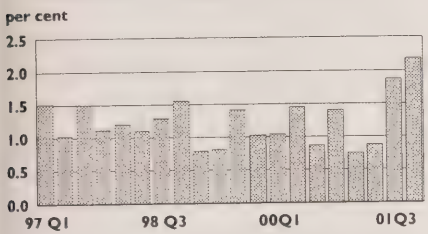
CMHC MORTGAGE MARKET TRENDS

Canada Mortgage and Housing Corporation

First Quarter, 2002

MORTGAGE LENDING

Residential mortgage credit growth*



* quarter-over-quarter estimate
Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2002

MARKET SHARE OF RESIDENTIAL MORTGAGE CREDIT (%) *

	4Q00	1Q01e	2Q01	3Q01	4Q01e
Banks	69.7	69.9	70.2	70.7	70.9
Trusts	1.8	1.9	1.9	1.9	1.9
Caisse & Co-op	13.8	13.9	13.9	13.9	13.9
Life Ins. Co.	4.4	4.3	4.2	4.1	4.1
Pension Funds	2.2	2.3	2.3	2.3	2.3
Others **	8.1	7.8	7.5	7.1	6.8

* Excludes Special Purpose Vehicles
** Includes non-depository credit intermediaries
e: estimate
Sources: Bank of Canada, CMHC, Statistics Canada CMHC-MAC 2002

STRONG GROWTH IN MORTGAGE CREDIT IN LAST QUARTER OF 2001

by Michel Laurence, Chief Economist

Residential mortgage credit outstanding grew by 2.2 per cent in the fourth quarter of 2001, the highest growth rate since the fourth quarter of 1992. Total outstanding reached $460 billion as mortgage rates fell and housing markets flourished

Low mortgage rates and rising disposable income laid the foundation for strong housing markets and healthy growth in the mortgage market in the last quarter of 2001.

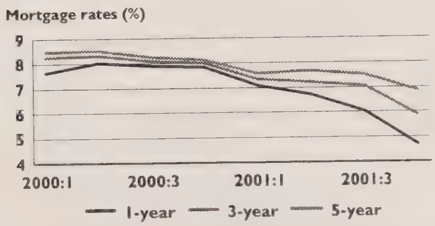
Key economic drivers very favourable to mortgage credit growth

Mortgage rates declined for most terms in the fourth quarter relative to the third quarter of 2001. The average one-year mortgage rate fell by almost one and a half percentage points while the average five-year mortgage rate fell by more than half a percentage point. Meanwhile personal disposable income rose at a rate of 1.3% over the same period. The lower mortgage rates, combined with the higher disposable income, meant that households were in a position to borrow much more without increasing their burden of debt (as defined as the ratio of monthly mortgage carrying cost to disposable income.)

The lower rates reduced the cost of financing and encouraged

Continued on page 3

Falling mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 2002

In this Issue:

CMHC SCHL
HOME TO CANADIANS
Canada

MORTGAGE RATES TO GO BACK UP IN 2002

by Réal Gratton, Senior Economist, Capital Markets

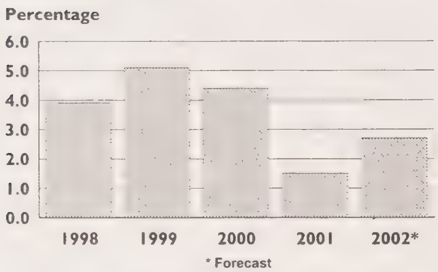
North American economic activity recovered rapidly following a drop in the GDP in the third quarter. As of the end of last year, North America posted renewed growth with surprising speed and vigour. Fearing inflation, the financial markets drove up long-term interest rates.

Economic growth sets the tone

For some time now, the economic data has reflected an improvement of the North American economies. In Canada, the recovery in the manufacturing sector is gaining a foothold, and the capacity utilization rate is stabilizing above 80.0 per cent. The unemployment rate is already below 8.0 per cent.

In the United States, the industrial sector is also posting renewed growth, and several indicators confirm that the manufacturing sector is expanding. The capacity utilization rate is on the rise again, exceeding 73.0 per cent, and the unemployment rate is still below 6.0 per cent.

GDP Growth in Canada



Sources: CMHC, Statistics Canada
CMHC-MAC 2002

While the decline in industrial activity was intensified by the inventory change and the downturn in the technology sector late in 2001, the impact on demand was mitigated, both in Canada and in the United States. The interest rate decreases and tax cuts fuelled household spending while defence and security requirements stimulated public sector spending. In the fourth quarter, the GDP grew by 2.0 per cent at annual rate in Canada and by 1.7 per cent in the United States, and it should grow even more rapidly in both countries in 2002.

Economy not expected to go full tilt in 2002

In Canada, labour market conditions deteriorated only slightly in the last few quarters, and the increase in the unemployment rate was limited. Incomes continued to rise and buoyed up household spending. The previous decreases in interest rates and their expected continued low levels until the end of the current year, combined with the tax cuts and employment recovery, will boost consumption in 2002.

The same does not appear to hold true for capital spending. The persistent excess capacity, the slow recovering in foreign demand, and weak profits will drive down total investments in 2002. Residential investments will post moderate growth, while investments in machinery and equipment and non-residential investments will fall.

Government expenditures and investments have been robust in recent years, and we estimate that they will be even stronger this year due to the increased spending for defence and security.

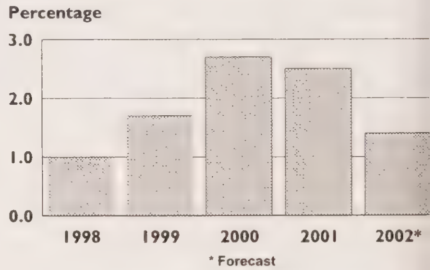
The growth in consumer spending and public investments will likely not be able to prevent the final domestic demand from slowing down in 2002. However, net exports will grow faster and, combined with rebuilding of inventories, will ensure solid growth in the final demand and the GDP.

Inflation to slow down this year

Due to the drop in energy product prices and the downturn in production in the third quarter, the inflation rate eased at the end of last year. Over one year, total inflation was effectively just 0.7 per cent, while the underlying inflation (that is, excluding food and energy) reached 1.6 per cent. The decrease in activity in the industrial sector in general and the technology segment in particular, especially on account of inventory liquidation, considerably attenuated inflation.

Demand, which in fact remained steady, limited the widening of the gap between actual and potential productio such that the pressure on prices did no ease as much as could have been expected. The current economic recovery is already closing this gap at a faster than anticipated pace.

Annual Inflation Growth



Sources: CMHC, Statistics Canada
CMHC-MAC 2002

While total inflation did come dowr this was not so much the case for underlying inflation, which, already on the rise early in the year, reached 1.8 per cent in March. Even though total inflation is already on the rise it will remain lower in 2002 than in 2001. The recent increase in the price of oil and other energy products represents an additional risk.

Continued on page

Continued from page 2

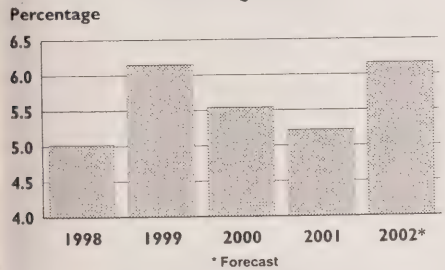
Interest rates to rise over the year

After the shock of September 11 and the ensuing downturn in growth, the financial markets recovered and the economy quickly posted renewed growth. As soon as the recovery was perceived as a lasting one, further to the monetary easing, it pushed back the bond market, which went on the defensive, showing its fears of inflation.

During the fourth quarter, long-term interest rates (30-year terms) went up significantly and 2-year rates also rose. This past April 16, the Bank of Canada tightened its monetary policy, cutting the discount rate by 25 basis points to 2.25 per cent. The Fed, the US central bank, is maintaining the Fed funds rate at 1.75 per cent for the moment.

While there remains some uncertainty as to the size of the monetary adjustments, progressive rate hikes are still expected over the coming months. The gradual increase in short-term rates would then cause long-term rates to hover around 6.00 per cent.

10-Year Bond Rate
Fourth Quarter



Sources: CMHC, Statistics Canada
CMHC-MAC 2002

The financial markets are anticipating increases in short-term rates for the following reasons. First, the North American economies are rebounding considerably; second, the real short-term rates are around zero in both Canada and the United States; and, third, the rates on the futures markets are on the rise. These factors are working in favour of monetary policy adjustments.

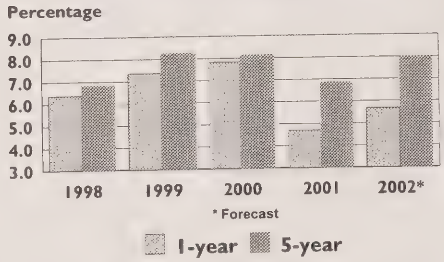
This list of factors could also include the fact that 2-year interest rates have gone up rapidly and significantly in recent months, thereby considerably narrowing the gap between 30-year and 2-year rates. In the past, this phenomenon has been a forerunner of the start of a turnaround in monetary policies.

Mortgage rates to go up in 2002

Chartered banks were competing to offer the lowest mortgage rates late last year. At the end of December, the 1-year rate was 4.60 per cent, while the 5-year rate stood at 6.85 per cent. At the beginning of the year, additional cuts came in the wake of the decrease in the discount rate by the Bank of Canada. In fact, the 1-year and 2-year rates were brought down to 4.35 per cent and the 5-year rate was lowered to 6.60 per cent.

Soon after the Bank's action, with the end of the monetary easing in sight, rates went back up. The 1-year rate rose to 4.55 per cent and the 5-year rate increased to 6.85 per cent. With the monetary easing cycle drawing to a close, the 2-year rate reacted strongly, reaching 6.30 per cent, in line with the anticipated hikes in the bond rates.

1-Year and 5-Year Mortgage Rates
Fourth Quarter



Sources: CMHC, Statistics Canada
CMHC-MAC 2002

The 1-year rate, currently at 5.40 per cent, will be in the range from 5.50 per cent to 6.00 per cent at the end of the year. The 5-year rate, now at 7.45 per cent, will hover between 7.75 per cent and 8.25 per cent. It is important to note that, despite the rise in mortgage rates until the end of this year, they should still be expected to be lower than they were in the fourth quarter of 2000. ■

MORTGAGE LENDING

Continued from page 1

refinancing in order to consolidate mortgage and other personal debt.

Active housing markets also very favourable to credit growth

The low mortgage rates and rising disposable income also propelled activity in housing markets in the fourth quarter relative to the third quarter of 2001. The dollar volume of MLS[1] transactions in the resale home market increased 13.4 per cent owing to a 10.9 per cent increase in the number of transactions and a 2.3 per cent increase in the average price of transactions. Meanwhile, the annual rate of housing starts rose 13.7% to 195,100 units in the fourth quarter from 171,600 units in the third quarter. Spending on home alterations and improvements also advanced one per cent over the same period, reaching $16.8 billion.

The strength in housing markets contributed to the increase of 2.2 per cent in mortgage credit outstanding in the fourth quarter of 2001 over the previous quarter. This is the highest growth rate since the fourth quarter of 1992. This raised residential mortgage debt by 5.8 per cent compared to the fourth quarter of 2000.

Chartered banks led in market share

Recent trends in market share by institution type continued, with chartered banks accounting for 70.9 per cent of the mortgage loans outstanding by the fourth quarter of 2001. Credit unions retained their second place position, accounting for 13.9 per cent of residential mortgage loans outstanding. ■

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[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association

INDICATORS OF MORTGAGE LENDING ACTIVITY

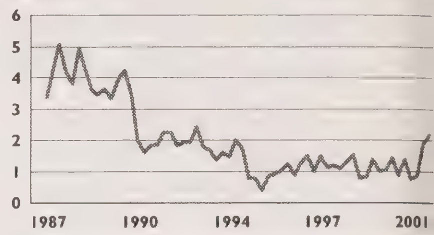
MORTGAGE CREDIT OUTSTANDING ($MILLIONS)*

	1999	2000	2001	4Q00	1Q01e	2Q01	3Q01	4Q01e
TOTAL	408,074	427,130	447,789	435,005	438,295	442,155	450,436	460,269
% change	4.5	4.7	4.8	1.4	0.8	0.9	1.9	2.2
Banks **	252,530	280,583	302,532	288,825	292,464	297,335	305,782	314,546
Trusts **	22,372	8,712	8,139	7,456	7,757	7,936	8,242	8,620
Caisse & Co-op **	54,184	56,196	59,670	57,106	57,960	58,880	60,066	61,772
Life Ins. Co. **	18,857	18,182	18,021	18,114	18,077	17,964	17,941	18,104
Pension Funds **	7,948	8,962	9,792	9,280	9,518	9,716	9,863	10,070
Others **, ***	35,495	33,986	31,417	33,478	32,651	31,775	30,900	30,342

*Seasonally adjusted data
e: estimate
** Excludes Special Purpose Vehicles
*** Includes non-depository credit intermediaries
Sources: Bank of Canada, CMHC, Statistics Canada

CMHC-MAC 2002

Quarterly residential mortgage credit growt



Sources: CMHC, Bank of Canada, Statistics Canada
CMHC-MAC 2002

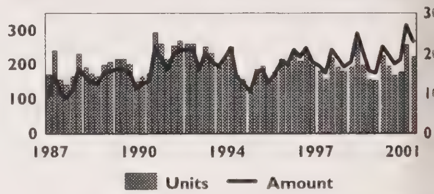
MORTGAGE LOANS APPROVED*

		1999	2000	4Q00	1Q01	2Q01	3Q01
TOTAL	$ millions	78,321	73,964	17,346	18,374	27,118	23,006
	Units	814,934	738,357	169,388	180,012	260,126	224,667
By Type of Lender							
Banks & Other	$ millions	72,578	68,278	16,088	17,005	25,490	21,766
	Units	742,566	670,795	152,381	162,948	240,186	204,429
Trusts	$ millions	4,662	4,211	814	928	1,246	663
	Units	52,429	42,643	9,349	9,547	12,240	6,810
Life Ins. Co.	$ millions	1,082	1,475	443	441	382	577
	Units	19,939	24,919	7,658	7,517	7,700	13,428

* Not seasonally adjusted
Source: CMHC

CMHC-MAC 2002

Mortgage loans approved



Source: CMHC
CMHC-MAC 2002

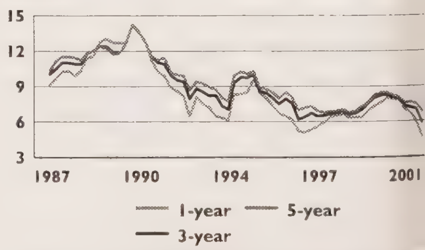
MORTGAGE RATES (%)*

	1999	2000	2001	4Q00	1Q01	2Q01	3Q01	4Q01
1-year	6.80	7.85	6.14	7.83	7.10	6.73	6.03	4.70
3-year	7.37	8.17	6.88	8.00	7.35	7.23	7.05	5.88
5-year	7.56	8.35	7.40	8.15	7.58	7.67	7.50	6.87

* Average of period
Sources: Bank of Canada, CMHC

CMHC-MAC 2002

Mortgage rates



Sources: CMHC, Bank of Canada CMHC-MAC 200

NHA MBS RESUMES GROWTH

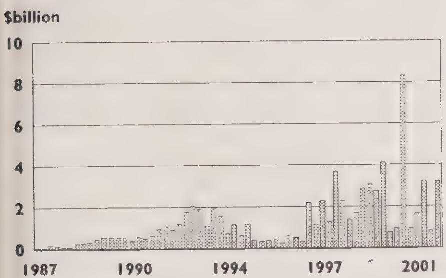
pool type 970 accounted for 56 per cent of all issues

by David Weingarden, Senior Economist

The NHA MBS market resumed growth in the fourth quarter of 2001. The number of pools and total issuance was up strongly in the quarter, pushing total NHA MBS outstanding higher.

NHA MBS grew strongly in the fourth quarter of 2001 following a weak performance in the previous quarter. A total of 46 new pools were issued totaling $3.2 billion. This was almost four times the amount issued in the third quarter. The rebound in MBS growth for the fourth quarter was driven in large part by the CMHC Canada Mortgage Bonds Program. The strong finish to the year brought issuance to a total of $8.9 billion for 2001. This is down from a total of over $11 billion in 2000 and almost $13 billion in 1999.

Quarterly NHA MBS issuance



Source: CMHC CMHC-MAC 2002

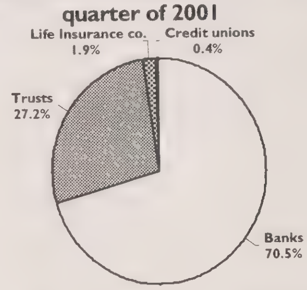
Single-family indemnity and social housing pools lead the way

Single-family mortgage pool types made up the bulk of new issuance last quarter, with 31 new pools amounting to $2.8 billion. The single-family indemnity pools (type 970) continued to remain the most popular type which accounted for over 56% of the total issued amount in the fourth quarter. Social housing pools, amounting to $160 million, accounted for about 5% of new issues during the quarter.

Chartered banks lead the issuers

Chartered banks accounted for 70.5 per cent of new NHA MBS issues, followed by trusts and life insurance companies at 27.2 and 1.9 per cent respectively.

Banks led NHA MBS issuance in the fourth quarter of 2001



Source: CMHC CMHC-MAC 2002

NHA MBS outstanding

The strong issuance of the fourth quarter increased the outstanding volume to $34.7 billion. This accounts for 7.5% of outstanding residential mortgage credit in Canada.

Spreads up slightly

NHA MBS-Government of Canada bond yield spreads for all pool types moved higher by 4-5 basis points in the fourth quarter of 2001. The average spreads were about 29 basis points for non-prepayable pools and 38 basis points for prepayable pools.

NHA MBS highlights

Fourth quarter 2001

New issues:

- √ 46 pools amounting for $3.2 billion
- √ 31 single family-pools totalling $2.8 billion or 88 per cent of all issues
- √ pool type 970 accounted for 56 per cent of all issues
- √ issues of social housing were $160, million, down $47 million from the previous quarter

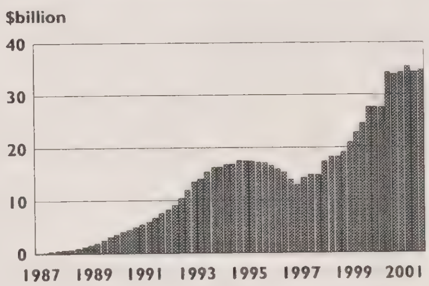
MBS-bond yield spreads:

- √ at 29-41 basis points for 5-year terms, spreads rose by 4-5 basis points from the previous quarter

Outstanding volume:

- √ $34.7 billion outstanding, up slightly from $34.4 billion in the previous quarter

NHA MBS outstanding, end of quarter



Sources: CMHC, Bank of Canada CMHC-MAC 2002

NHA MBS STATISTICS

NHA MORTGAGE-BACKED SECURITIES

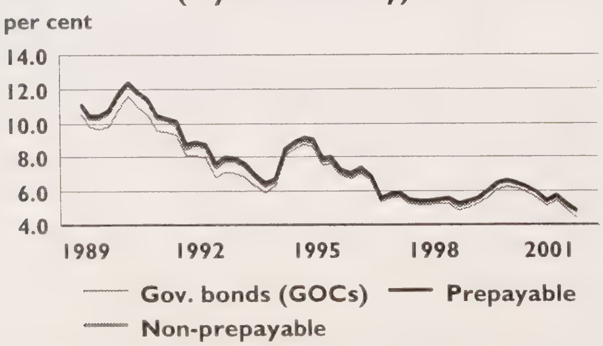
(Average of period except when indicated)

		2000	2001	4Q00	1Q01	2Q01	3Q01	4Q01
OUTSTANDING AMOUNT (End of period)								
TOTAL	$million	33,924	34,684	33,924	34,217	35,391	34,350	34,684
	Units	1,005	969	1,005	993	986	965	969
Residential, single (with PIP)	$million	1,976	1,669	1,976	1,898	1,847	1,798	1,669
	Units	254	222	254	246	241	230	222
Residential, single (no PIP)	$million	918	593	918	849	750	689	593
	Units	175	136	175	169	160	144	136
Residential, single (no PIP with indemnity)	$million	24,325	22,653	24,325	23,748	24,253	23,155	22,653
	Units	236	245	236	234	239	239	245
Residential, single (no PIP with indemnity, 5-year)	$million	0	2,329	0	958	1,545	1,531	2,329
	Units	0	22	0	4	9	13	22
Residential, multiple	$million	1,467	1,434	1,467	1,434	1,393	1,381	1,434
	Units	110	107	110	109	106	106	107
Social Housing	$million	3,809	4,284	3,809	3,843	4,023	4,172	4,284
	Units	122	113	122	119	113	112	113
Mixed	$million	1,430	1,723	1,430	1,488	1,580	1,624	1,723
	Units	108	124	108	112	118	121	124
ISSUES (Total of period)								
TOTAL	$million	11,014	8,906	971	1,658	3,226	829	3,193
	Units	120	139	20	22	41	30	46
Residential, single (with PIP)	$million	150	245	48	35	74	62	73
	Units	13	20	3	3	5	5	7
Residential, single (no PIP)	$million	16	11	0	0	11	0	0
	Units	4	1	0	0	1	0	0
Residential, single (no PIP with indemnity)	$million	9,664	4,669	778	403	2,037	426	1,803
	Units	56	44	8	6	15	8	15
Residential, single (no PIP with indemnity, 5-year)	$million	0	2,544	0	971	621	26	925
	Units	0	22	0	4	5	4	9
Residential, multiple	$million	245	188	80	4	50	35	99
	Units	19	12	5	1	3	3	5
Social Housing	$million	780	832	7	171	294	207	160
	Units	16	17	1	3	4	5	5
Mixed	$million	159	418	58	75	138	72	133
	Units	12	23	3	5	8	5	5
YIELDS (5-year maturity,%)								
MBS Prepayable (with PIP)		6.30	5.31	5.88	5.41	5.72	5.28	4.83
MBS Prepayable (no PIP)		6.36	5.37	5.94	5.47	5.77	5.34	4.89
MBS Non-prepayable		6.27	5.26	5.88	5.37	5.67	5.21	4.78
MBS MMUF		6.33	5.31	5.94	5.43	5.72	5.27	4.83
Mortgage rates		8.35	7.40	8.15	7.58	7.67	7.50	6.87
GOCs		5.96	4.99	5.55	5.09	5.41	4.97	4.48
SPREADS OVER GOC (5-year maturity,%)								
Prepayable (with PIP)		0.35	0.32	0.34	0.32	0.31	0.31	0.35
Prepayable (no PIP)		0.40	0.38	0.39	0.38	0.36	0.37	0.41
Non-prepayable		0.31	0.27	0.34	0.29	0.26	0.24	0.29
MMUF		0.37	0.33	0.39	0.34	0.31	0.30	0.35
Mortgage rates		2.39	2.42	2.60	2.50	2.26	2.53	2.38

* PIP stands for Penalty Interest Payments. Not seasonally adjusted.
Sources: CMHC, Bank of Canada

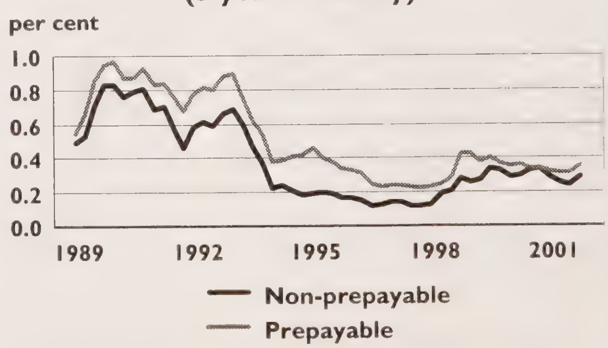
CMHC - MAC 2002

Selected interest rates (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2002

Spreads over GOCs (5-year maturity)



Sources: CMHC, Bank of Canada, Nesbitt Burns
CMHC-MAC 2002

NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: October 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-760	Alberta Motor Assoc.Insur.Comp	10,127,133.14	4.80	2006-10-01	6.96	22.78
96-413-778	Alberta Motor Assoc.Insur.Comp	8,667,039.62	4.65	2006-10-01	6.68	22.44
96-413-786	Vancouver City Savings CU	13,191,248.94	5.45	2006-08-01	6.30	21.92
NHA-Insured Market Residential Pools (Mixed)						
96-501-630	Equitable Trust Company (The)	22,359,691.42	4.75	2006-10-01	5.88	21.50
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-687	Peoples Trust Company	18,886,759.80	4.75	2006-10-01	5.91	22.71
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-810	Royal Bank of Canada	224,763,586.22	4.65	2006-08-01	6.40	21.70
97-002-828	Cnd.Imperial Bank of Commerce	275,850,311.36	4.70	2006-10-01	6.96	22.89
97-002-836	Maple Trust Company	106,982,010.57	4.65	2006-10-01	6.37	22.21
97-002-844	National Bank of Canada	123,787,384.22	5.00	2006-06-01	6.61	21.59
97-002-851	National Bank of Canada	13,980,659.69	5.00	2006-06-01	6.71	11.26
97-002-869	National Bank of Canada	156,069,595.76	5.00	2006-07-01	6.63	21.93
97-002-877	National Bank of Canada	28,850,916.07	5.00	2006-07-01	6.78	11.70
97-002-885	National Bank of Canada	66,093,333.13	5.00	2006-05-01	6.63	21.51
97-002-893	Bank of Montreal	340,137,047.19	4.75	2006-10-01	6.67	22.12
97-002-901	HSBC Bank Canada	54,191,599.95	4.90	2006-10-01	6.43	21.73
97-002-919	Bank of Nova Scotia	301,135,784.66	4.50	2006-10-01	6.47	21.17
97-002-927	Laurentian Bank of Canada	57,480,532.22	4.90	2006-08-01	7.14	22.05
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-169	Canada Trustco Mortgage Co.	266,835,021.01	5.00	2006-10-01	6.72	20.92
97-500-177	Canada Trustco Mortgage Co.	73,759,590.66	5.00	2006-10-01	6.90	12.43
97-500-185	Toronto-Dominion Bank	172,005,169.49	5.00	2006-10-01	6.88	23.78
97-500-201	Cnd.Imperial Bank of Commerce	125,115,702.53	4.65	2006-10-01	6.57	21.93
97-500-219	Maple Trust Company	187,145,809.10	4.65	2006-10-01	6.51	22.22
97-500-227	HSBC Bank Canada	54,303,724.57	4.90	2006-10-01	6.25	21.64
97-500-235	Cnd.Imperial Bank of Commerce	2,998,745.35	4.65	2006-06-01	6.33	22.27
Social Housing Pools						
99-008-450	Toronto-Dominion Bank	11,405,180.00	4.50	2006-10-01	5.11	34.55
Month of Issue: November 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-794	Alberta Motor Assoc.Insur.Comp	10,156,317.53	4.50	2006-11-01	6.52	22.04
96-413-802	Alberta Motor Assoc.Insur.Comp	9,775,292.33	4.40	2006-11-01	6.51	22.69
NHA-Insured Market Residential Pools (Mixed)						
96-501-648	Equitable Trust Company (The)	41,755,270.05	4.40	2006-11-01	5.82	24.01
96-501-655	Equitable Trust Company (The)	26,386,028.08	5.30	2011-11-01	6.47	24.96
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-679	Toronto-Dominion Bank	2,451,750.00	5.13	2011-11-01	6.16	25.00
96-601-695	Peoples Trust Company	16,488,985.58	5.13	2011-11-01	6.54	23.61
96-601-703	Peoples Trust Company	21,316,783.52	4.60	2006-11-01	5.46	22.78
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-935	M.R.S. Trust Company	7,499,647.05	4.60	2006-11-01	6.32	22.74
97-002-943	Royal Bank of Canada	39,934,298.50	4.40	2006-08-01	6.42	21.60

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 2002

NHA MORTGAGE-BACKED SECURITIES

OCTOBER TO DECEMBER 2001 ISSUES

POOL NO.	ISSUER	VALUE ($)	COUPON RATE (%)	DUE DATE	WEIGHTED AVERAGE INTEREST(%)	WEIGHTED AVERAGE AMORTIZATION (YRS)
Month of Issue: November 2001						
NHA-Insured Market Residential Pools (NO PIP WITH 5 YEAR INDEMNITY)						
97-500-243	Home Trust Company	11,083,324.26	4.25	2006-10-01	7.74	23.94
97-500-250	Cnd.Imperial Bank of Commerce	32,095,999.56	4.00	2006-06-01	6.35	21.76
Social Housing Pools						
99-008-468	Toronto-Dominion Bank	5,698,100.00	3.88	2004-11-01	4.38	35.00
99-008-476	Toronto-Dominion Bank	55,400,464.20	4.50	2006-11-01	5.04	25.01
Month of Issue: December 2001						
NHA-Insured Market Residential Pools (Single Units)						
96-413-810	Alberta Motor Assoc.Insur.Comp	12,335,590.95	4.95	2006-12-01	6.11	23.10
96-413-828	Alberta Motor Assoc.Insur.Comp	9,090,838.25	4.63	2006-12-01	6.21	22.95
NHA-Insured Market Residential Pools (Mixed)						
96-501-622	Toronto-Dominion Bank	19,772,627.46	5.50	2011-12-01	6.22	23.36
96-501-663	Equitable Trust Company (The)	22,960,911.01	4.60	2006-12-01	5.32	28.17
NHA-Insured Market Residential Pools (Multiple Units)						
96-601-711	Peoples Trust Company	39,977,664.29	4.45	2006-12-01	5.36	25.43
NHA-Insured Market Residential Pools (NO PIP WITH 3 YEAR INDEMNITY)						
97-002-950	M.R.S. Trust Company	5,995,104.96	4.75	2006-12-01	5.89	22.51
Social Housing Pools						
99-008-484	Bank of Nova Scotia	11,969,800.00	3.35	2004-12-01	3.88	35.00
99-008-492	Toronto-Dominion Bank	75,223,210.14	4.38	2006-12-01	4.96	24.25

*PIP stands for Penalty Interest Payments
Source: CMHC

CMHC - MAC 2002

Definition of NHA MBS pool types

964 - Comprised exclusively of Homeowner Mortgages, any Penalty Interest Payments (PIP) from early prepayment are passed through to the investor

967 - Comprised exclusively of Homeowner Mortgages, all Penalty Interest Payments (PIP) from early prepayment are retained by the issuer

970 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions

975 - Comprised exclusively of Homeowner Mortgages, Investors are paid an indemnity in the event of any prepayments made outside the core prepayments provisions (5-year term)

966 - Comprised exclusively multi-family rental mortgages, pools mortgages are closed to prepayment options

990 - Comprised exclusively Social Housing Mortgages, pools and mortgages are closed to prepayment options

965 - Mixed Pools, these pools can be comprised of any of the above types of mortgages

NOTE

If there is a specific trend or development you would like to see analyzed in a future issue please let us know. Suggestions and requests for additional information may be sent to Réal Gratton, Senior Economist, Capital Markets, Market Analysis Centre, Canada Mortgage and Housing Corporation (CMHC), 700 Montreal Road, Ottawa, Ontario, K1A 0P7, Tel.: (613) 748-2239, Internet: rgratton @cmhc-schl.gc.ca

For information regarding MBS please call Colin Mills, General Manager, MBS Centre, CMHC, Toronto, Tel.: (416) 218-3305.

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